CPPP Statement on the Report of the Texas Tax Reform Commission
March 29, 2006

Today, the Texas Tax Reform Commission released its Final Report. We appreciate the commission members who undertook this public service and the leadership of the chair, Mr. John Sharp.

In our testimony to the commission, we outlined three criteria to judge any new tax system: 1) would it produce more revenue to meet critical needs; 2) would it be fairer to taxpayers by reducing regressivity, or at least not significantly increase regressivity; and 3) would it grow better over time than the system it replaced. On all three criteria, we have serious concerns about the commission's final proposal.

First, the proposal is a net tax cut. We had urged a plan that increased revenue; the Governor had asked for a plan that was revenue neutral; but the commission delivered a plan that reduces revenue by using some of the so-called surplus in this biennium to replace property tax revenue.[1]

Texas ranks:

50th in state government **spending** per capita
47th in state government **spending** as a percent of personal income
41st in state/local **spending** per capita
43rd in state/local **spending** as a percent of personal income

50th in state **taxes** per capita
48th in state **taxes** as a percent of personal income
33rd in state/local **taxes** per capita
42nd in state/local **taxes** as a percent of personal income

Our present revenue system is inadequate to meet our needs. The commission's plan makes it more so.

Second, the commission's plan, contrary to early reports, is not less regressive than our current tax structure. Texas has the fifth most regressive tax system in the United States, meaning that those with less income pay a greater percentage of their income in state and local taxes than those with more income. Under the commission's plan, every income group gets a tax cut, but that is because the plan reduces revenue, not because the plan reduces regressivity. Indeed, as the equity note shows, using the new business tax, along with some of the so-called surplus, to cut property taxes gives the biggest tax breaks to those with the highest incomes—actually increasing the regressivity of the Texas tax system, a step backwards for low- and middle-income Texans.

(As we shared with the commission, we have no objection to regressivity attributable to the cigarette tax because increasing cigarette taxes discourages smoking and is therefore good for public health. Indeed, we suggested that the commission seek a tax equity note that broke out the regressivity separately to isolate the effects of the cigarette tax.)

Third, we are concerned about whether this new tax base has the same growth potential as the property tax. We await a fiscal note that will indicate future revenue growth. It is unlikely, however, that the new tax will grow fast enough both to keep up with what the property tax would have produced and replace the revenue lost from the net tax reduction.

On the positive side, the commission may have designed the best business tax proposed to date. This new tax may be the basis for legislation during the upcoming special session that Texans can applaud. To draw applause, however, any proposal must 1) put more revenue on the table; 2) increase fairness, or at least not make things significantly worse; and 3) meet our future needs with growth that is equal to or greater than the growth from the property tax it replaces.

[1] While Texas does have funds available for appropriation, Texas does not have a surplus. See *Texas Has No Surplus* (Feb. 16, 2006) at http://www.cppp.org/research.php?aid=497&cid=6. Using the so-called surplus for property tax reduction, will leave Texas with a budget shortfall for 2008-2009, requiring cuts in critical state services.