

Key questions in a tax overhaul: Who wins? And who loses?

Would you bet on a poker hand without looking at your cards? Of course not. But the Legislature may be about to gamble on a sweeping tax bill without looking at how the cards will fall for different types of families and businesses. Here's the deal:

The Legislature is in the final stages of writing a bill that could cut school property taxes by \$5.5 billion a year. The cut would be paid for by raising the sales tax, as well as taxes on cigarettes, alcohol, and businesses. The problem is that legislators might do this without first being able to answer the one question any taxpayer would ask about a tax bill — “How will it affect me?”

Before voting on earlier versions of the bill, House Bill 3, legislators were able to examine a “tax equity note” –an analysis that shows the effect of proposed tax changes on businesses in different industries and families with different incomes.

But as members from each chamber meet to negotiate the final package for HB 3, there is no guarantee legislators will have similar information before they vote whether to send the bill to the governor for his signature.

An equity note is not required by legislative rules at this final stage, but our representatives should not commit billions of dollars without first seeing the cards – who wins and who loses.

HB 3 is supposed to be “revenue neutral,” with higher sales, cigarette, alcohol, and business taxes offset by lower property taxes to average out evenly for Texas taxpayers. But averages hide the true picture. The tax equity notes revealed a different story – a few big tax-cut winners and a lot of tax-increase losers.

The equity note for the first version of the bill showed that it would have been a net tax cut for families with incomes over \$100,000 a year, but an increase for everyone else. The House revised the business tax during floor debate, but the updated equity note again demonstrated that the bottom line for Texas families hadn't improved much – the biggest cuts still would go to families with the highest incomes.

The Senate Finance Committee's version of the bill added an innovative sales-tax rebate to cushion the very poorest Texas families from the brunt of the proposed hike in the sales tax, a tax that hits their pocketbooks hardest. But then the tax equity note showed that only families with incomes over \$140,000 per year would come out ahead. The Senate changed the business tax again before approving the bill last week; the equity note for this version has not yet been released.

The bill's supporters have tried to argue that the proposed increase in the cigarette tax – a highly regressive tax that burdens lower-income families much harder than higher-income families – masks the benefits to most families of the other tax changes in the bill. Not so.

Using information from the comptroller, the Center for Public Policy Priorities calculated that, even disregarding cigarette taxes, HB 3 would still favor mainly the families with the highest incomes. In the House version, the one-tenth of Texas families with incomes over \$140,000 would get nearly half the benefits. In the Senate version, only families at the very bottom (protected by the rebate) and the very top would come out ahead; families with incomes between \$23,000 and \$100,000 would pay more.

These results are not surprising. Property taxes have a similar effect on families at most income levels, while consumption taxes, such as the sales tax, are felt most by families with the lowest incomes. With any bill that raises consumption taxes to cut property taxes, the winners are those who own a lot of property and the losers are those who spend all that they earn.

Legislators need an equity note before they approve any tax bill, especially one that could shift many billions of dollars from one group of Texans to another. The rest of us deserve to know whether our families would win or lose with HB 3. We might decide it's better to fold this hand and wait for a better deal.

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