

Watch Out for a Wasteful Tax Giveaway Moving Quickly through the Texas Legislature

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Sufficient revenue is critical to providing education, health care, transportation and other critical services for Texans. But on Monday, April 15, the full House will debate yet another wasteful tax giveaway. HB 1000 by Rep. Paddie would give \$35 million a year in insurance tax credits to funds promising to make investments in rural areas or in the new federal opportunity zones created by the 2017 federal tax law.

One-quarter of the lost revenue would come from the Foundation School Fund, the major source of support for our public schools.

This proposal lacks basic safeguards to ensure that Texas benefits from the investments receiving this special treatment. Only a handful of firms can even compete for these credits, due to oddly specific requirements for certification. Since approval for credits is on a first come, first served basis, the state cannot reject an applicant for any reason other than not meeting these narrow criteria.

This tax giveaway does not contain specific minimum targets for the number of jobs recipients of the tax breaks will create or the wages companies will pay. Such minimum goals are required in most other tax break programs. Clawback provisions – which require repayment if key indicators go unmet – are limited to cases involving excessive distribution of profits to investors, not to failure to provide adequate economic benefits.

The bill would give the Legislature only one report on the effects of investments that tax giveaway recipients made, including only totals for the program, not numbers broken down by each individual fund, businesses benefitting, or location of specific job creation. The program would be permanent, without a thorough sunset review.

Other states have similar programs to encourage investments, but in other states the programs are much more competitive, efficient, and market oriented. For instance, Maryland auctions off its tax credits, reducing the cost to the state. The state then invests the proceeds in venture capital firms that bid competitively for investments, rather than to a limited number of firms meeting pointlessly specific requirements. Finally, if the investments are successful, Maryland receives a substantial share of the profits; HB 1000 would deliver nothing except an unenforceable promise of jobs.

The Legislature can more efficiently and directly aid rural areas and other struggling communities across Texas by increasing Medicaid reimbursement rates for hospitals and nursing homes, as well as boosting school-finance assistance to small school districts and those with a large proportion of student from low-income families. Lawmakers should reject HB 1000.

These bills would be an unnecessarily expensive and ineffective way to attract investments to rural and distressed areas of Texas.