CPPP CENTER for PUBLIC POLICY PRIORITIES
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WHERE DID ALL THE MONEY GO?
TAX CUTS, ABATEMENTS, AND SUBSIDIES

Dick Lavine lavine@cppp.org

Public structures—including education, health services, water supplies and transportation infrastructure—help maintain Texans' quality of life, and they require adequate revenue to function properly. To provide adequate revenue, our state needs a balanced tax code without tax cuts, abatements, and subsidies that let some dodge their share of responsibility. Reducing taxes paid by some businesses means that other businesses or families have to make up the difference to help us take care of our public structures so they continue to take care of us. Investments in Texas' future through education, health and human services, water and transportation will lead to a better chance for a more prosperous future for all of us than would tax breaks for certain businesses or so-called "economic development incentives" that lower taxes on a select few companies.

This report briefly summarizes major tax-related bills that have passed at least one chamber, with their negative effect on the amount available to fund the 2014-15 budget and future budgets. Information is current as of Friday, May 10. The fiscal impact may change significantly in the coming weeks as bills move through the legislative process.

HB 500 by Rep. Hilderbran - Franchise tax cuts omnibus bill
2014-15 cost: $667 million

This bill was heavily amended on the House floor on May 7. An updated fiscal note is not yet available, but Rep. Hilderbran supplied an estimated cost of $667 million in 2014-15 on the House floor.

As reported by the Ways & Means committee, the major component of the bill was the small-business franchise tax exemption, which is also contained in HB 213 (which passed the House on May 4 and was left pending in the Senate Finance Subcommittee on Fiscal Affairs on May 10). The current small-business provision allows firms with a total revenue of less than $1 million to have no franchise tax liability. This exemption, which is due to expire this year, would be made permanent. The cost of HB 213 as a free-standing bill is $164 million in 2014-15.

Twenty-five floor amendments and amendments to amendments were adopted during the House floor debate. Most of these amendments consisted of other House bills that either failed to make it out of committee and onto the Calendar, or are continuing to move through the process as free-standing bills.

HB 500 has been referred to the Senate Finance Subcommittee on Fiscal Affairs, but has not been posted for a hearing.

HB 800 by Rep. Murphy - Research and Development tax credits and exemptions
2014-15 cost: $239.2 million
2016-17 cost: $304.6 million

HB 800 would create a sales tax exemption for property used in research and a franchise tax credit for research and development activities. The franchise tax credit would be 5% of the difference between a firm's research expenses and 50% of that firm's average research expenses in the prior three years – meaning that a company could receive a tax credit as long as it didn't cut its research spending below one-half of its prior average! These credit could be carried forward for 20 years, draining revenue from state budgets far into the future.

The sales-tax exemption accounts for most of the bill's cost, although the fiscal note does not specify the allocation. The Comptroller would have to hire 40 auditors to oversee the bill's provisions, at a cost of $21 million per year.

HB 800 was reported from the Senate Finance Subcommittee for Fiscal Affairs on May 9, without amendments.

HB 3572 by Rep. Hilderbran - Mixed beverage tax; natural-gas sales tax exemption
2014-15 cost: $189.2 million
2016-17 cost: $256 million

As reported out of the Ways & Means Committee, HB 3572 would only have changed the taxation of mixed drinks from a tax on gross receipts to one on sales price. This was intended to be a revenue-neutral switch.

A floor amendment by the author added a new sales tax exemption for commercial use of natural gas, reducing general revenue by a large amount, as well as reducing revenue for cities, counties, and special districts.

The bill is scheduled to be heard in the Senate Finance Subcommittee on Fiscal Matters on Monday, May 13.

HB 213 by Rep. Hilderbran - Small-business franchise tax exemption
2014-15 cost: $164 million
2016-17 cost: $1.5 billion

Businesses with gross receipts of less than $1 million do not owe any franchise tax. This cutoff level is scheduled to fall back to the prior level of $600,000 next year.

HB 213, as reported from the Ways & Means Committee, would have made the $1 million cutoff permanent, at a cost of $164 million for 2014-15 and $166 million in 2016-17.

A floor amendment by the author would set the cutoff at $1 million for taxes due in 2014 and 2015, then raise the level by steps to $20 million for 2022 and beyond.

HB 213 was left pending on May 10 in the Senate Finance Subcommittee on Fiscal Affairs, which considered a substitute that deleted the expensive floor amendment.

HB 1133 by Rep. Otto - Sales tax refund for cable TV, Internet access, and telecommunications
2014-15 cost: $100 million
2016-17 cost: $100 million

HB 1133 would create a new sales tax refund for property used in distributing cable television services, providing Internet access, or transmitting telecommunications services.

As filed, this bill would have cost $885.1 million in 2014-15. As it passed the House, it contains a provision limiting refunds to $50 million per year, prorated over all eligible providers. The current sales tax exemption for manufacturing equipment, which is now a total exemption, was introduced in the same manner – phasing in over a number of years, starting in 1987 – and is forecast to reduce 2014-15 revenue by nearly $1.4 billion.

HB 3390 by Rep. Hilderbran - School property tax abatements ("Chapter 313")
Biennial cost by 2022-23: $800 million
Cost over life of the bill: $4.4 billion

School districts may grant property tax abatements to wind farms, manufacturers, nuclear plants, and certain other businesses that make the required level of investment and meet certain wage and benefit requirements. This program, known as Chapter 313 for its place in the Tax Code, was created in 2001 to incentivize the creation of high-paying jobs and investments by companies deciding whether or not to locate in Texas.

The cost of the property tax revenue lost to these abatements is borne by the state through the school finance system and is expected to reduce revenue to the Foundation School Program by more than $500 million in 2014-15 biennium. Existing abatement agreements and pending applications will cost the state roughly $4.2 billion in lost property taxes and tax credits over the life of these agreements.

HB 3390 would continue to program for ten years, which would reduce property taxes paid by companies to school districts by an additional $4.4 billion over the course of newly authorized agreements, increasing the state cost of funding school-finance formulas by the same amount.

House floor amendments were added that would nearly eliminate all job creation and wage requirements from the program. Under current law, 80% of all new jobs created by a project receiving tax abatements must pay 110% of the county's average wage for manufacturing jobs, with a special exception for projects that create at least 1,000 jobs. These large projects must pay only the county's average wage for all jobs, which is frequently only two-thirds of manufacturing wages.

HB 3390, as it passed the House, would apply this lower wage standard to all projects.

In addition, this shrunken wage level would apply only to the required minimum number of jobs — 25 jobs for urban projects; 10 projects for rural projects — rather than to 80 percent of all jobs created by a project. And if a project invests more than the required minimum amount, even this 25/10 job creation requirement shrinks, eventually disappearing for larger projects.

For a fuller description of the problems with HB 3390, see the Better Texas Blog and CPPP's recent policy paper on Chapter 313 tax abatements.

HB 3390 is expected to come to the Senate floor late this week.

HB 2061 by Rep. Murphy - New Markets tax credits
2014-15 cost: zero
2016-17 cost: $112.5 million
5-year cost of bill: $292.5 million

HB 2061 would create a "New Markets" program to grant insurance tax credits for investments in firms that would, in turn, invest in specified communities. These credits would cost the state nearly $300 million over a five-year period. The program would be similar to the discredited CAPCO program that has existed in Texas, but is not being renewed.

The state program would parallel the federal New Markets Tax Credit Program. Other states have similar programs, but one that is much more competitive, efficient, and market oriented. For instance,

- Maryland auctions off its tax credits; the New Markets program has a fixed tax credit that costs twice as much as those sold at auction.
- Maryland then invests the proceeds in venture capital firms that bid competitively for the investments; the New Markets program is limited in practice to only nine firms doing business in Texas.
- If the investments are successful, Maryland receives a substantial share of the profits; the New Markets program delivers nothing except the promise of jobs.

For more information or to request an interview, please contact Alexa Garcia-Ditta at garciaditta@cppp.org or 512.823.2871.

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