

March 20, 2015

The Honorable Dan Patrick, Lt. Governor, Members of the Texas Senate
P.O. 12068 – Capitol Station
Austin, Texas 78711

Dear Lt. Governor Patrick and Members of the Texas Senate:

People come to Texas, and always have, because our pro-business climate encourages investment and jobs. Our state government has a substantial budget surplus today largely because of the resurgence in the oil and gas industry and the taxes that our base industries have paid. For once in a generation, you have an opportunity to make progress on the issues that confront our state—congested roads, educational challenges, obsolete infrastructure, high debt and underfunded pensions to name a few. To continue our economic success and job-creating machine, we need to address those challenges and protect our business climate. If there is money left over, it is appropriate to consider tax relief.

Texas is a great place to do business. We have a diverse economy, the right-to-work law, rational regulations, and low real estate costs. And with no personal income tax, we are a low-tax state for individuals—4th lowest among the states.

But Texas is NOT a low tax state for business. We rely much more heavily on property and sales taxes than other states—taxes that have a heavy impact on business. Our state collects a whopping 63 percent of its taxes from business, well above the national average of 45 percent. Texas' tax load on business is higher than the national average, higher than Massachusetts, and higher than California!

If, after paying our state bills, there is money left over for tax relief, that relief should be fair to those who pay the most taxes in the first place—both individuals and businesses. That portion of tax relief to business should encourage growth and investment, enhancing our ability to expand our production and payrolls.

Unfortunately, we believe the package of tax bills up for consideration in the Texas Senate falls short of these principles and creates new inequities in our tax system. Two in particular cause concern, and we would ask they be removed.

First, an automatically escalating homestead exemption from the school property tax, with nothing comparable for business property, means a split tax roll. It can only result in a long-term shift of the burden onto business taxpayers, violating the principle of equal taxation for all. Homeowners would benefit, but renters and businesses would get no relief. In fact, they would carry most of the load of future tax increases, paying \$1.00 in new taxes for every \$0.75 homeowners would pay. Over time, Texas' already high property taxes on business would grow.

And the ever-escalating cost of the homestead exemption could challenge future state budgets, especially given today's weakness in oil prices.

Second, while the Senate package provides relief from the business franchise tax, it creates an inexplicable taxpayer divide. The Senate plan would quadruple the small business exemption (from \$1 million to \$4 million) leaving only 55,000 of the state's 1 million registered businesses subject to the tax. One taxpayer would have to carry the load for 19 non-taxpaying businesses.

Those newly exempted businesses would see an average savings of \$6,000—not enough to hire even a minimum wage employee on a half-time basis. The widely respected Small Business & Entrepreneurship Council ranks Texas with the 3rd best tax system for small business, and while we should always strive to do better, the reality is there are more pressing problems we should address.

We supported the Legislature's efforts in 2006 to broaden the franchise tax to more businesses in order to better mirror the Texas economy and to minimize tax avoidance. But under the Senate proposal, Texas will have fewer taxpayers and a business tax in place that penalizes success in growth and creating jobs. Separating taxpayers into unequal groups is effectively a type of class warfare that will threaten Texas' pro-business reputation.

We commend the Lieutenant Governor and our state Senators for their hard work, and we understand the difficulty in balancing the needs of Texas against the reality that there is never enough money to do it all. But if tax cuts are a part of that mix, they should be fair to all taxpayers and not create new inequities likely to worsen an already high tax barrier to business investment in the state. We would support broad-based tax relief that, after the state budget is financed, benefits all Texans.

Sincerely:

Tony Bennett, Texas Association of Manufacturers
Dale Craymer, Texas Taxpayers and Research Association
John Fainter, Association of Electric Companies of Texas
Bill Hammond, Texas Association of Business
Hector Rivero, Texas Chemical Council
Todd Staples, Texas Oil and Gas Association
Ronnie Volkening, Texas Association of Retailers

cc: The Honorable Joe Straus, Speaker, Members of the Texas House of Representatives