

TTARA at Work 2013



TTARA

Texas Taxpayers and Research Association

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TTARA

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Texas faced some economically challenging years but, thanks to a solid foundation of fiscal conservatism, came storming out of recession. The forecast of a record surplus allowed lawmakers this past session to invest in some excellent new initiatives that will encourage capital investment and research and development in the state, helping create new jobs and grow our economy.

TTARA was instrumental as either the lead or a key player in the Legislature's efforts, and we are grateful that our voice is respected by the state's leadership. This report highlights a number of TTARA's accomplishments and efforts in 2013 on behalf of our members that will benefit all taxpayers.

While we achieved some substantial victories, much work is left to do as we move into the interim and prepare for the 84th Legislature. Texas is not a low tax state for business. High property taxes are a barrier to new investment, high sales taxes are a burden to businesses and individuals alike, and the Texas margin tax remains a source of confusion.

TTARA is blessed to have an incredible, supportive membership and an experienced, knowledgeable staff that make us the pre-eminent taxpayer organization in the state – uniquely poised to deal with the broad issues of tax policy as well as the nitty-gritty of tax administration. We pride ourselves on our accessibility to our members and to public policy makers.

John, Sheryl, George, Ryan, Betty and I are truly honored to work on behalf of our members for the benefit of Texas taxpayers.

Sincerely,

Dale Craymer
President

LEGISLATIVE VICTORIES



Property Tax

Simplified Tax Notice – SB 1510

The Issue

Over the past three decades, the Property Tax Code’s “truth-in-taxation” process has been the primary method to better inform taxpayers and limit local property taxes. As part of that process, local governments are required to publish a notice of certain information so taxpayers may assess the proposed changes. Over time the process has undergone numerous changes that have made the notice much too complicated to serve its intended purpose.

TTARA at Work

Prior to the 2009 session, a simplified tax notice was part of a four-part TTARA initiative to bring about important and long overdue improvements to property tax administration. All passed in 2009, except for the simplified tax notice, which also failed to pass in 2011. Though TTARA continued to work relentlessly, certain county governments opposed our notice proposal. Finally, during the 2013 session, TTARA’s persistence paid off and negotiations began. Numerous bill drafts were exchanged before crafting a final version that was mutually acceptable.

Legislative Outcome

SB 1510 is a comprehensive overhaul of the lengthy and confusing “truth-in-taxation” tax notice concerning the proposed adoption of city and county property tax rates. The simplified notice will inform taxpayers of last year’s tax rate, the tax rate required to raise the same amount of revenue, and the tax rate proposed for adoption. A taxpayer will be able to determine the resulting impact on their property tax bill under the three rates by following simple calculation instructions included on the notice and will be provided information on who to call for assistance.

Why it Matters

Texas businesses and individuals alike pay a lot more property taxes than any other type of state or local tax. Now taxpayers will have the information – in a more meaningful, easy to understand format – needed to readily determine if, and how much, a jurisdiction proposes to increase their property taxes. This will allow them to more effectively voice their opinion and/or take action to roll back the increase. The bill repairs a glaring deficiency in a fundamentally important element of the property tax system.

Pollution Control Exemption – HB 1897

The Issue

From the inception of the property tax exemption for pollution control equipment in 1993 – an initiative which was spearheaded by TTARA – local government groups have worked actively to narrow its reach. First and foremost, TTARA has consistently sought the preservation of the exemption’s original intent: to exempt property a person owns and that is used wholly or partly to control pollution in order to meet or exceed federal, state or local mandates.

TTARA at Work

TTARA has been active on this issue for more than 20 years. TTARA staff drafted both the constitutional amendment and implementing legislation that passed the Legislature in 1993. That fall, TTARA organized the Texas Clean Air Coalition to raise funds and conduct a public campaign in favor of the constitutional amendment (Proposition 2), which passed with 57 percent of the vote.

Since then, TTARA has consistently been in the forefront of legislative and administrative issues affecting Proposition 2. In the past 20 years, we have vigorously opposed and defeated several legislative efforts to eliminate or significantly limit the exemption. We also have worked with administrative agencies, the appraisal community and local governments to improve administration of the exemption. TTARA has served as the point organization to represent the business community’s interests in negotiations with local governments.

The 83rd Legislature was no exception when it came to bills filed that challenged the exemption. HB 1897 as introduced would have required property owners to reapply to the Texas Commission on Environmental Quality (TCEQ) for a use determination at the request of the agency’s executive director. In other words, the bill potentially would have nullified all previously granted use determinations at the discretion of the TCEQ. This provision for reapplication at the agency’s discretion – the most troubling part of the bill – was stripped at TTARA’s objection.

However, TTARA continued to work with bill supporters on language to accomplish their expressed purpose of protecting local taxing jurisdictions against the possibility of large tax refunds resulting from the TCEQ’s delay in processing applications, but without imposing more restrictions on taxpayer applicants.

Texas has one of the better systems of property tax administration in the country. But because of high property tax burdens, the tax remains extremely unpopular with both taxpayers and their elected representatives. Each time the Texas Legislature convenes, there are myriad “reform” proposals, often promising illusory tax “relief” by shifting the burden onto other taxpayers.

At the request of the Senate Business and Commerce Committee chair, TTARA was called to testify on the bill. We stated that a middle ground solution was possible. At the chair’s instruction, TTARA participated in negotiations bringing together opposing parties, and helped cobble together an agreement which became the final version of HB 1897.

Legislative Outcome

The bill as passed allows a taxpayer and a chief appraiser to enter into an agreement concerning taxability of property subject to a pending application. The final bill satisfies local governments that they are protected against big refunds resulting from TCEQ delays; validates current valuation agreements with appraisal districts; allows taxpayers to negotiate future valuation agreements (subject to local government approval); and expedites the process by requiring the TCEQ to adopt rules mandating that their final ruling on a use determination application be completed within one year.

Why it Matters

It is essential to the program’s integrity to preserve its original intent: to exempt property a person owns that is used wholly or partly to control pollution in order to meet or exceed federal, state or local mandates. The compromise legislation is consistent with that goal and earned TTARA’s support on two policy grounds: (1) it preserves previously granted use determinations, and (2) it establishes a reasonable procedure by which property owners and local taxing jurisdictions can agree on the treatment of property subject to a pending use determination.

Property Tax Administration Reforms – HB 585

The Issue

Texas has one of the better systems of property tax administration in the country. But because of high property tax burdens, the tax remains extremely unpopular with both taxpayers and their elected representatives. Each time the Legislature convenes, there are myriad “reform” proposals, often promising illusory tax “relief” by shifting the burden onto other taxpayers.

As in the past, this session’s reform proposals focused on the governance and operation of central appraisal districts (CADs), which are responsible for valuing property. TTARA opposed proposals that would create significant inequities, particularly for business property. Instead, TTARA supported HB 585, which contains a number of provisions to strengthen the current system (see “Chief Appraiser Qualifications”).

TTARA at Work

TTARA consulted with the bill’s proponent, participated in an advisory group organized by its House author, drafted certain provisions of the bill, and supported its passage at both House Ways and Means and Senate Finance committee hearings.

Legislative Outcome

HB 585 (the session’s omnibus property tax reform bill) contains several beneficial reforms for taxpayers. It is the first bill to be passed drawing from the authority of the 2009 constitutional amendment, a component of TTARA’s four-part initiative, giving the State authority to exercise direct oversight of property tax administration.

Why it Matters

While TTARA firmly believes that the current system rests on a strong policy foundation, this does not mean that improvements cannot be made, which HB 585 demonstrates. It makes appraisal review boards (ARBs) more independent of appraisal offices, improves member training and standardizes hearing procedures. In addition to structural reforms, the bill further improves protest and appeal procedures for taxpayers in several ways, including requiring the chief appraiser to prove by clear and convincing evidence that an increased appraisal is justified for a property whose value was adjudicated in the prior year.

Chief Appraiser Qualifications – HB 585 (Sections 1, 5, 6 and 32)

The Issue

During the legislative interim, TTARA analyzed the results of 2009 legislation that it promoted to empower the Comptroller of Public Accounts to review CAD operations. We examined the results of the first round of those reviews, found that the appraisal of property in numerous instances is well below standard (especially in smaller counties) and recommended consideration of options to improve the process (See TTARA newsletter, “Equal and Uniform...sort of,” May 2012).

TTARA at Work

At the request of the chair, TTARA presented its findings to the House Ways and Means Committee, which had an interim charge to analyze the results of the Comptroller’s Methods and Assistance Program (MAP) audits. After that testimony, which clearly got the committee members’ attentions, the chair asked us for suggestions to raise CAD performance. Rather than propose an expansive overhaul, which did not appear to have legislative support, we suggested monitoring another round of MAP audits to see if significant improvements could be made.

However, we did draft and submit a proposed bill to require that the person charged with the most important job of property tax administration – determining taxable property values – be professionally qualified. Based on our interim findings we worked with representatives of appraisal districts to hammer out mutually supported language, which was introduced as HB 2224.

Legislative Outcome

While HB 2224 passed the House on May 10, it was caught in an end-of-session logjam in the Senate. However, HB 585’s House and Senate sponsors agreed to allow the contents of HB 2224 to be incorporated in the bill as a Senate floor amendment.

Why it Matters

MAP reviews indicate that lack of a certified chief appraiser significantly contributes to an appraisal district’s poor performance. All chief appraisers now must obtain state certification as a registered professional appraiser. If a CAD refuses to hire a certified chief appraiser, the Comptroller will appoint one and bill the CAD for any expenses incurred.

Appraisal Caps – A Bad Idea That Won’t Die

The Issue

For more than a century, local government officials’ use of varying assessment ratios and other blatantly unconstitutional methods essentially meant Texas had a “split” tax roll in which different categories of property were taxed at different percentages of market value. Even since the system’s complete restructuring with the Peveto-Jones reforms of 1979, Texas has continued to operate a modified “split” roll – created by the granting of specific exemptions from and limitations of the tax for certain taxpayers, primarily homeowners.

A system that keeps all property on the roll at or near market value is not only fair to all taxpayers, but it is enormously stable and predictable, which is vital to maintain a strong economic climate. However, during the current system’s tenure, numerous proposals have been filed to erode its balance. The most common proposal involves reducing the taxable value of residential homesteads by arbitrarily capping value increases at the expense of other property owners. This session was no different; 16 separate bills were filed to lower the existing 10 percent cap on the annual appraisal increase for homesteads.

TTARA at Work

As in past sessions, TTARA once again took the lead in opposing all appraisal cap proposals, politically popular though they may have been.

Legislative Outcome

The 16 appraisal cap bills sought to reduce the residential homestead appraisal cap to levels ranging from the annual rate of inflation to 5 percent. All went nowhere.

Why it Matters

Homestead appraisal caps merely shift the tax burden to businesses and other property owners and do nothing to limit the growth in property taxes. Appraisal caps, over time, widen the gap between the market and taxable value of certain property; shift the tax burden from favored to disfavored categories of property; unfairly and unconstitutionally discriminate against some taxpayers; reverse the achievement of uniform values across the state; and throw the school finance system into even further legal turmoil.

If these problems were not enough, a retrograde change would almost certainly hurl a destructive wrench into Texas’ economic development works.



Economic Development

Property Tax Incentives – HB 3390

The Issue

Texas has among the highest property taxes found in any state – particularly those levied for schools. For Texas to compete for major new industrial investments, temporary property tax abatements or limitations are a critical part of the state's economic development toolbox. The Texas Economic Development Act, Chapter 313 of the Tax Code, provides the authority for school districts to offer temporary limits on the taxable value of new investment.

TTARA was instrumental in the passage of this bill in 2001 and has been actively involved in extending the program each time it has come up for sunset review. This program – which has brought more than 6,600 jobs to Texas – would have expired in 2014 unless the Legislature acted.

TTARA at Work

TTARA led the charge to continue this valuable job-creating program, forming a working group of our members that drafted proposed wording to extend and modify the program. Most of TTARA's suggested language was included in the filed bill. We worked tirelessly during the session to rebut opponents' claims that property tax incentives are bad public policy, and challenged attempts to neuter the program by imposing substantial new reporting requirements. We opposed efforts to provide only a brief extension of the program, noting that business investment horizons required a longer extension period.

Legislative Outcome

HB 3390 extends the program for eight years and simplifies its application, reporting and jobs requirements.

Why it Matters

This program allows school districts to offer temporary limits on the taxable value of new industrial projects and is Texas' single-most important economic development tool. Preserving this program will allow Texas to compete with states that have much lower taxes on new business investments. Total taxpayer savings over the next 10 years: \$1.3 billion.

For Texas to compete for major new industrial investments, temporary property tax abatements or limitations are a critical part of the state's economic development toolbox.

Research and Development – HB 800

The Issue

Texas repealed a franchise tax credit for research and development in 2006 with the enactment of the margin calculation of the franchise tax. As a result, Texas has fallen behind other states in R&D activities. Texas accounts for 8.4 percent of the national economy, but now garners only 5.2 percent of the nation's R&D spending.

TTARA at Work

TTARA wrote the initial draft of the legislation and worked closely with the Texas Association of Manufacturers as members of Texans for Innovation, a statewide coalition of business and industry leaders formed to emphasize the need to restore the R&D incentive.

Legislative Outcome

HB 800 offers taxpayers a choice of a franchise tax credit (based on the federal alternative simplified credit) or a sales tax exemption (primarily for equipment and software) for research and development activities in Texas.

Why it Matters

Now that Texas can effectively compete with other states (almost all of which offer R&D incentives), the bill could bring Texas more than \$13 billion in increased economic activity and almost 100,000 permanent new jobs. Total taxpayer savings over the next five years: \$701 million.

Freeport Expansion – HJR 133 and HB 3121

The Issue

Expansive Texas property taxes are an impediment to business investment – particularly because we tax business inventories. The Texas Constitution was amended in 1989 to create a "Freeport" provision that allows certain goods brought into Texas temporarily as business inventories to be exempt from property tax if they leave the state within 175 days, provided affected local taxing jurisdictions have given their seal of approval. That 175-day limit, however, is not realistic for all businesses. For example, while the Constitution specifically qualifies aircraft parts for Freeport status, in reality major aircraft repair parts do not turn over within 175 days. This puts Texas at a disadvantage to other states, many of which exempt business inventories entirely – aircraft parts and otherwise.

TTARA at Work

This session, one of the world's largest suppliers of aircraft parts sought to get the Freeport time limitation extended for aircraft parts inventory – an effort requiring both a constitutional

amendment (HJR 133) and enabling legislation (HB 3121). TTARA provided support, advice and historical context; consulted on language and legislative strategy; submitted written material for use in drafting bill summaries; and testified in support of the bill in both House and Senate committee hearings. Since the bill's passage, TTARA has worked with the Texas Association of Manufacturers and other supporters of the proposed constitutional amendment to develop written materials for use in the campaign to educate voters on the merits of the Freeport extension. In addition, TTARA has responded to requests from the media and the House Research Organization for information to be used in articles explaining the measure – Proposition 3 on the November 2013 ballot.

Legislative Outcome

The bills passed without opposition. Providing voters approve HJR 133 (Proposition 3), HB 3121 provides that affected local governments may approve a longer-term property tax exemption (up to 730 days) for aircraft parts temporarily stored in Texas.

Why it Matters

The extended exemption will help Texas attract an expanded aircraft industry and all its associated economic benefits. This is an important first step to eliminate at least a part of a substantial barrier to economic development – Texas' tax on business inventories – by harmonizing our tax system with the operational realities of different types of businesses.

Gulf Coast Oil Containment Facility – HB 1712

The Issue

Following the Deepwater Horizon incident, the U.S. Department of the Interior required operators in the deep water of the Gulf of Mexico to have access to and the ability to deploy well containment resources in the event of a blowout or a loss of well control. Major oil companies joined to form a consortium to invest \$1 billion to provide the required safeguard system at a facility to be located along the Gulf coast. The State of Alabama offered a full property tax exemption to attract the investment.

TTARA at Work

Upon reviewing the proposed exemption legislation, TTARA convened a meeting of interested parties to discuss options for accomplishing the bill's purpose without enlarging the scope of the pollution control exemption, which would have drawn intense opposition from local governments.

As a result of the meeting, advocates for the bill developed an alternative strategy to exempt the property using existing constitutional authority for offshore oil equipment. This approach won virtually unanimous approval in the Legislature and averted a potential impasse that could have led to the location of the facility in another state.

Legislative Outcome

HB 1712 grants both property and sales tax exemptions for personal property that is part of an offshore spill response containment system.

Why it Matters

The interim containment system equipment was being housed at a Houston shipyard but a permanent location was to be established either in Texas or Alabama. The tax exemptions provided by the bill ensured that Texas could compete with Alabama to attract the facility and its jobs.

Telecommunications Investment – HB 1133

The Issue

A hallmark of sound sales tax policy – included as a fundamental principle in TTARA's fiscal policy statement – is that a sales tax should be levied on the purchase of a good or service by a final consumer, not on purchases necessary to produce that good or service. Taxing intermediate business-to-business sales results in market distortions and causes tax pyramiding. Texas has granted sales tax exemptions for a list of items used to produce tangible goods – but not to produce services. A service provider is considered the final consumer of whatever it purchases to provide the service.

Telecommunications providers, therefore, have paid sales tax on equipment purchased to deliver their services, despite the fact that the sales of telecommunications services are subject to higher taxes than other services – accounting for as much as an estimated 27 percent of service charges when sales and various other taxes are totaled.

Telecommunications providers long have unsuccessfully pursued an equipment exemption, both administratively and legislatively. But past attempts to gain an exemption from the Texas Legislature failed in large part because of sizable negative fiscal notes.

TTARA at Work

When supporters asked for help with the latest attempt to gain an equipment sales tax exemption, TTARA testified in support of the proposal in both House and Senate committees, concentrating on its sound tax policy character.

Legislative Outcome

HB 1133 provides for a sales tax refund up to an aggregate \$50 million annually for purchases of infrastructure equipment used to provide video, Internet or telephone services.

Why it Matters

The targeted tax cut will spur new investment in the provision of improved and more widely accessible services in Texas, which in turn will create jobs and foster growth of electronic commerce that is transforming the state, national and world economies. It is also an important step in educating legislators about the intrusiveness of the sales tax on productive business costs.



Franchise Tax Relief – HB 500

The Issue

The franchise tax was rewritten in 2006 to change how the tax is calculated, from one based on net income to one based on a concept termed “taxable margin.” The reforms have been confusing for many taxpayers, and the tax adds to an already high level of business taxation in the state.

TTARA at Work

TTARA worked with the House and Senate to craft a bill that would not just address specific concerns with the tax, but also provide franchise tax relief for all taxpayers. TTARA also worked with several of our members on some of the more targeted provisions of the bill to address a number of the distortions of the tax rate and strongly supported the amendments offered in the Senate to reduce the rate of the tax.

Legislative Outcome

HB 500 will reduce tax rates by 2.5 percent in 2014 and a contingent 5 percent in 2015. The bill also converts the small business exemption to a minimum deduction of \$1 million, eliminating the million dollar “tax cliff,” reducing taxes for thousands of smaller businesses but still ensuring they have a stake in the tax system. The bill also provides permanent changes to address particular aspects of the tax’s application.

Why It Matters

The bill will provide immediate and substantial tax relief and will jump-start the discussion of simplifying the tax, as well as eliminating certain distortions it causes. Total taxpayer savings over the next two years: \$714 million.

Franchise Tax Rules – §3.588

The Issue

Differences between Texas’ statutory definition of “cost of goods sold” and the definition in federal law have caused continual problems for taxpayers since the inception of the margin calculation. Millions of dollars have been at issue in audits over definitional differences.

TTARA at Work

TTARA was heavily involved throughout the process of drafting a new franchise tax rule. TTARA proposed language and participated in both public and behind-the-scenes meetings with agency staff and other interested parties.

Administrative Outcome

The Comptroller of Public Accounts adopted new franchise tax rule 3.588, which will bring greater clarity to the determination of “cost of goods sold.” This was done working within the agency’s existing authority without the need for new legislation.

Why it Matters

Under the newly adopted rule 3.588, the Comptroller will largely default to the federal definitions unless Texas statutes specifically provide otherwise. This will greatly simplify taxpayer bookkeeping as well as put to rest an issue that has generated substantial financial uncertainty for franchise taxpayers.

The targeted tax cut will spur new investment in the provision of improved and more widely accessible services in Texas, which in turn will create jobs and foster growth of electronic commerce that is transforming the state, national and world economies. It is also an important step in educating legislators about the intrusiveness of the sales tax on productive business costs.

Sales Tax

Protecting the 2 Percent Local Sales Tax Rate Cap – HB 2423

The Issue

Over the years, the Legislature has created numerous special purpose districts funded with a dedicated local sales tax. The combined rate of all local sales taxes at any location, however, cannot exceed a 2 percent cap. Yet session after session, in lieu of seeking a property tax increase, local entities pursue legislation to allow them to raise new sales taxes in excess of the 2 percent cap for various special purposes, ranging from mass transit to ambulance service.

TTARA at Work

TTARA consistently has led the opposition to these proposals and often is the only organization to openly do so. Because affected local governments always heavily support these proposals, TTARA members and other businesses that have a presence in those local communities often can be placed in an awkward position when voicing objections, even though negatively affected.

This session, TTARA presented the only testimony against HB 2423, which would have allowed a regional transit authority in Cameron, Willacy and Hidalgo counties to exceed the 2 percent cap by up to an additional 1 percent to finance the acquisition and operation of a public transportation system, including light rail.

Legislative Outcome

HB 2423 passed the House, but not until the 2 percent cap-busting provision had been stripped out in the substitute that went to the House floor. The bill then died in the Senate, where it did not receive a committee hearing.

Why it Matters

Sales taxes in Texas are already among the nation's highest. Once the Legislature allows a few local jurisdictions to exceed the 2 percent cap, others will follow. As local governments soak up this additional tax capacity, the likelihood increases that future state tax increases would target the already heavily taxed business community.

Local Sales Tax Administration – HB 1660 and HB 1923

The Issue

Because of the complex network of local sales taxes, errors in allocating total local tax receipts often occur on sales tax returns submitted to the Comptroller of Public Accounts, who

is then forced to recalculate the allocation of the sales taxes distributed to cities, counties and special purpose districts. These local jurisdictions do not always agree with the reallocations, often believing they did not receive their rightful share of the sales taxes collected. For many sessions, legislation has been filed to “fix” the problem. The bills usually include elements that require costly additional compliance requirements on the part of those businesses that collect and remit sales taxes.

Over the years, TTARA has successfully helped kill or neuter objectionable requirements in such bills. Taxpayers should not be subject to multiple authorities enforcing and auditing sales tax compliance. Local entities should work directly with the Comptroller to address their concerns about local tax allocations without placing new burdens on taxpayers.

TTARA at Work

This session, HB 1660 and HB 1923 were filed to address the issue and included several unacceptable provisions. HB 1660 would have made a taxpayer delinquent if a misallocation of local sales taxes was reported even if the total amount of local taxes due was remitted. Thus, something as simple as an inadvertent miscoding of a jurisdiction's Comptroller-assigned ID number would result in a delinquency at substantial expense to the taxpayer.

HB 1923 would have required taxpayers to report a considerable amount of their financial information that was not relevant to determine if the correct amount of taxes was remitted. Local governments claimed this additional information would allow them to better judge whether or not they got their fair share. Further, the bill would have allowed the Comptroller to bestow on protesting cities and counties all the audit and investigative authority of the agency in reviewing sales tax returns. TTARA presented the only committee testimony in opposition to these bills, wherein we emphasized the increase in taxpayer compliance burdens that would result.

Legislative Outcome

Both bills failed to pass. HB 1660 died in the House Ways and Means Committee, while HB 1923 died in the House Calendars Committee.

Why it Matters

Both bills had numerous provisions strongly opposed by TTARA. They would have increased compliance burdens on taxpayers, subjected them to local government audits of sales tax returns and assessed new penalties on paid, but incorrectly allocated, local taxes.



School Finance

The constitutionality of the Texas school finance system is currently being challenged in court by four groups of public school districts, one group of charter schools and one group of taxpayers/parents. Partly in response to this challenge, the 83rd Legislature increased funding for public schools by more than \$3 billion over existing formula amounts while at the same time reducing the testing burden on high school students and providing for a more flexible high school degree program.

Our public schools are funded by state revenue (consisting of sales tax, franchise tax, severance tax, etc.), local property taxes and federal funds, at a total annual price tag of about \$50 billion. Texas has the second largest school system in the nation with more than 5 million public school students and more than 650,000 employees, 50 percent of which are teachers. Any adjustment made to the funding formulas or to teacher pay can result in increases in state and/or local taxes paid to support the

system. For example, a \$3,000 pay increase for each teacher would cost more than \$1 billion per year.

TTARA analyzes and monitors all bills that make changes to our school finance system, with particular scrutiny of bills that amend the process to set the property tax rate. We work behind the scenes with the authors of these bills and interested parties to ensure that taxpayer interests are represented in the process. We also monitor the various court cases that raise constitutional issues. To educate TTARA members on the intricacies of school funding, the TTARA Research Foundation publishes “An Introduction to School Finance in Texas (Revised January 2012),” a publication that earned the “Most Effective Education” award from the Governmental Research Association in 2011.

EDUCATING THE PUBLIC

Objective, Meaningful and Timely Analysis

TTARA published a number of newsletters this past year with an eye to better inform our members, lawmakers and their staff, and the public about critical fiscal issues. They are available free of charge on our website, www.ttara.org.

- ***Texas is a ___ Tax State***, published just before the Legislature convened, addressed one of the key myths about Texas taxes – that they are low. Both businesses and individuals pay state and local taxes. In Texas, the absence of a personal income tax makes us a very low tax state for individuals; but our heavy reliance on sales and property taxes actually makes us a relatively high state for taxes paid by business. There are many excellent reasons to do business in Texas, but we cannot improve our tax climate unless we objectively understand specifically which areas can be improved.
- ***Governor Signs Comprehensive Education Bill*** showed that you don’t need a school finance settlement to make substantial progress with public education in Texas. The 83rd Legislature passed sweeping education reforms while school finance litigation remains pending.
- ***Tax Wrap-Up for the 83rd*** is TTARA’s biennial review of the key tax and fiscal legislation enacted during the recent regular session. It is a must read for anyone seeking a broad review of what changes the Legislature adopted – many, but most certainly not all, of which we highlight elsewhere herein.
- ***The Rainy Day Fund Flood: What the Oil and Gas Comeback Means for Texas*** documents the tremendous rebound in oil and gas drilling and production and how that translates into substantial new revenues for the Texas Economic Stabilization Fund (or “Rainy Day Fund”). This objective assessment was critical given that voters are being asked, in two separate constitutional amendment elections, to approve using the funds: first, for new water projects (in November 2013) and second, for new transportation projects (in November 2014). The report was featured on the front page of the *Austin American-Statesman*, as well as in the *Dallas Morning News* and other newspapers, and TTARA President Dale Craymer was quoted.

Taking *The New York Times* to Task

In December 2012 – just prior to the legislative session – *The New York Times*, in a lengthy story that called into question Texas’ economic success record, claimed that Texas gave away \$19 billion in tax subsidies to businesses, buying its way to prosperity by offering more tax “giveaways” than any other state. The story, “Lines Blur as Texas Gives Industries a Bonanza,” was part two of a three-part series, “United States of Subsidies,” that examined business incentives and their impact on jobs and local economies.

TTARA delved into *The Times*’ numbers, and our research found critical errors in their scoring. *The Times*’ numbers for Texas included many basic tax exemptions commonly used to mitigate the economic distortions of taxing business inputs. While offered in almost every other state, *The Times* counted the dollar estimates of the exemptions only for Texas. TTARA wrote letters, including a letter-to-the-editor published in *The Times*, and a news release setting the record straight and highlighting *The Times*’ inaccurate work. As a result, the very watchdog group that had provided numbers to *The Times* disavowed the newspaper’s story.

Media coverage of TTARA’s rebuttal included stories in the *Texas Tribune* and *Texas Weekly* and a piece by *Dallas Morning News* Business Columnist Mitchell Schnurman, who wrote, “People are disputing the numbers, and I don’t buy them, either.”

TTARA’s work was critical in keeping the Texas Legislature focused on ensuring that the state has the economic development tools to compete with other states.

TTARA Defends Fiscally Responsible State Budget

Lawmakers this session crafted a balanced budget within available revenues while also providing key business tax relief. Yet in early June *The Wall Street Journal* editorialized against the budget, falsely claiming that Texas state spending was up a stratospheric 26 percent over the previous biennium.

TTARA again dove into the data and found that the *Journal* relied on “apples to oranges” math designed to produce a misleading result. TTARA’s research found that state spending was actually up a modest 8.7 percent. “Fiscal conservatism remains in Texas’ DNA,” TTARA pointed out in a letter to the editor, and state government remains “lean and efficient” thanks to those efforts. TTARA also issued a news release pointing out the faulty math. Many legislators have used TTARA’s analysis to better inform their constituents about the budget numbers.

By cutting taxes when most states were raising them, Texas provided a solid foundation for growth as it led the nation out of recession.

Texas Taxes: A Realistic View

TTARA authored a guest editorial in the *Texas Tribune* in response to errors in the Tax Foundation’s “Business Tax Climate Index” for Texas. TTARA pointed out that the Tax Foundation falsely labeled the Texas franchise tax as a “gross receipts tax” and understated the impact of Texas’ high property and sales taxes on businesses in the state.

THE ROAD AHEAD

Many Laurels, But None to Rest On

While the Legislature has finished its business and left town, TTARA remains busy. Being active before the Legislature is only a part of what we do. Once legislation passes, we work to inform taxpayers of the changes; we work with the Comptroller’s Office and other state agencies to ensure that bills are implemented efficiently and effectively, without imposing undue burdens on taxpayers; and we work with our members to understand if there are any glitches we need to address.

We may weigh in on administrative disputes, in which we believe tax laws or policy is not being appropriately followed – to the detriment of taxpayers. We research and analyze break-

ing issues as we consult with our members to identify possible future legislation. We track various administrative and court cases – and may even weigh in when a decision could impact Texas taxpayers broadly. We follow school finance lawsuits and issues, which may be key drivers of future property or other tax increases. We research and evaluate ways in which government may operate more efficiently. And we seek to inform you, our members, about all of this using our website, emails, publications and webcasts.

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