

CENTER *for* PUBLIC POLICY PRIORITIES

POTENTIAL REVENUE SOURCES

Texas Commission on Public School Finance testimony

DICK LAVINE

CPPP SENIOR FISCAL ANALYST, LAVINE@CPPP.ORG

@DLavine

April 19, 2018

Our school finance system is due for some **renovations!**

But we need raw materials to get the job done.



Scrub tax code

Remove outmoded or wasteful exemptions

Example: “High-cost” natural gas special treatment

- Reduces tax rate based on drilling/completion costs
- Estimated value - \$368 million in 2017
(Foundation School Fund receives 25%)

Scrub tax code

1989: exemption created when natural gas industry was weak and needed incentives to undertake higher-cost operations

2018: natural gas industry now strong, due to development of fracking, shale production

=> Incentive no longer needed.

Scrub tax code

Remove outmoded or wasteful exemptions

Another example:

Local Option Homestead Exemption (LOHE)

- Allows school districts to grant percentage homestead exemption (to 20%)
- Currently, state absorbs half of cost to Chapter 41 districts (under litigation)
- Estimated cost - \$636 million in 2017

Scrub tax code

1981: property tax reform appraised all homes at full market value; exemption created to ease “sticker shock”

**2018: exemption offered by fewer than 200 districts
more than half of benefit goes to households
>\$147,000 income**

=> Rationale for exemption no longer applicable

Modernize Sales Tax

Example: Taxation of business and professional services

- Many business and professional services are not subject to the sales tax
- Estimated value - \$3.4 billion in 2017 (health care excluded)

Examples:

- Legal services - \$484 million
- Architectural, engineering services - \$453 million
- Accounting, auditing services - \$313 million

Modernize Sales Tax

1961: sales tax created, reflecting 20th Century manufacturing economy

2018: tax fails to reflect growth in 21st Century service economy

=> Renovation needed

Bring tax rates up to date

Example: Alcoholic beverages taxes

- Beer: 2017 revenue - \$104 million (\$6 per 31-gallon barrel)
- Liquor: 2017 revenue - \$89 million (\$2.40 per gallon)
- Wine: 2017 revenue - \$16 million (20.4 cents per gallon if alcohol <14%)
- Malt liquor: 2017 revenue - \$15 million (19.9 cents per gallon)

If taxes increased by 50%
=> potential revenue - \$112 million

Bring tax rates up to date

1984: last increase in beer, liquor, wine, malt liquor tax rates (done as part of HB 72 school reforms)

2018: no adjustment for inflation since 1984

Bring tax rates up to date

Another example: Gasoline/diesel tax

- **Gasoline tax: 2017 revenue - \$2.7 billion (20 cents per gallon)**
- **Diesel fuel tax: 2017 revenue - \$857 million (20 cents per gallon)**
- **Total fuels taxes: 2017 revenue - \$3.6 billion**

If taxes increased by 50%
=> potential revenue - \$1.8 billion
(Available School Fund receives 25%)

Bring tax rates up to date

**1991: last increase in gasoline, diesel tax rates
(budget shortfall; *Edgewood* case response)**

2018: no adjustment for inflation since 1991

Data Sources

All revenue estimates are for a one-year period

All data is from Comptroller publications:

Field Guide to the Taxes of Texas, Dec. 2017

Tax Exemptions & Tax Incidence, Feb. 2017

Sources of Revenue 1972-2016, Jan. 2017

2017 Annual Cash Report