

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**TAX/FEE EQUITY NOTE**

**86TH LEGISLATIVE REGULAR SESSION**  
**Revision 1**

**May 2, 2019**

**TO:** Honorable Dustin Burrows, Chair, House Committee on Ways & Means

**FROM:** John McGeady, Assistant Director    Sarah Keyton, Assistant Director  
Legislative Budget Board

**IN RE: HJR3** by Huberty (proposing a constitutional amendment to provide property tax relief by reducing school district maintenance and operations ad valorem tax rates and increasing the state sales and use tax rates.), **Committee Report 1st House, Substituted**

Pursuant to House Rule 4, Section 34 (b) (5) the Legislative Budget Board has estimated the effects of the joint resolution on the distribution of tax and fee burdens among individuals and businesses. Specifically, the analysis shows the estimated changes to Table 1 (page 47) and Table 33 (page 67) from the Comptroller of Public Accounts *2018 Tax Exemptions and Tax Incidence* report (adjusted for the *2020-21 Biennial Revenue Estimate*) that are estimated to result from enactment of the proposed constitutional amendment. This analysis is for sales and use taxes effective in fiscal year 2021 and property taxes effective in tax year 2020 (that are generally paid during fiscal year 2021).

**Tax Law Changes**

- The joint resolution would raise the state sales and use tax rate from 6.25 percent to 7.25 percent.
- The joint resolution stipulates that the revenue from the increase in sales and use tax resulting from the rate increase may be used only to reduce the state compression percentage as defined by Section 42.2516, Texas Education Code.
- This analysis assumes that compression percentage would be reduced such that the increased cost to the state share of the Foundation School Program would equal the increased sales tax revenue. As school property taxes are compressed, state aid will increase. The amount of the increase in state aid is based off the prior year property values, while the decrease in local property tax collections is based off of the current tax year. As a result, for a district that is experiencing rising property values, the increase in state aid will often be less than the loss of local property tax collections, therefore the total increase in cost for the state share of the FSP will be less than the total reduction in local property tax collections.

**Dollar Value of Revenue Changes in Fiscal Year 2021**

- \$5,149.3 million sales and use tax increase
- \$5,375.1 million school district property tax reduction
- \$225.8 million net tax decrease

**Initial Incidence Impact in Fiscal Year 2021**

- A net decrease to business of \$638.4 million

- A net increase to households of \$412.7 million

**Initial Tax Incidence Impact by Industry**

CSHJR 3 was analyzed using the LBB's multi-tax model to determine the initial impact of the proposed changes relative to current state and local tax law. The estimated distribution of tax changes proposed under CSHJR 3 are shown in Table 1 - 3 below.

<b>Table 1</b>			
FY 2021: Initial Distribution of Sales & Use Tax - By Industry			
Comparison of Initial Tax Paid under			
Current Law vs. CSHJR 3 (\$ millions)			
<b>Industry</b>	<b>Current Law</b>	<b>CSHJR 3</b>	<b>Difference</b>
Agriculture	\$102.9	\$117.7	\$14.8
Mining	\$2,556.7	\$2,917.6	\$360.9
Utilities & Transportation	\$1,858.2	\$2,124.5	\$266.3
Construction	\$1,997.4	\$2,266.9	\$269.4
Manufacturing	\$1,689.4	\$1,931.7	\$242.3
Retail & Wholesale Trade	\$1,769.7	\$2,023.8	\$254.1
Information	\$916.1	\$1,047.6	\$131.5
FIRE	\$956.9	\$1,094.4	\$137.5
Other Services	\$3,445.8	\$3,940.4	\$494.6
Government	\$0.0	\$0.0	\$0.0
Individual Consumers	\$20,814.1	\$23,792.0	\$2,977.8
<b>Total</b>	<b>\$36,107.2</b>	<b>\$41,256.5</b>	<b>\$5,149.3</b>

*Note: Totals may not sum due to rounding.*

<b>Table 2</b>			
FY 2021: Initial Distribution of School District Property Tax - By Industry			
Comparison of Initial Tax Paid under			
Current Law vs. CSHJR 3 (\$ millions)			
<b>Industry</b>	<b>Current Law</b>	<b>CSHJR 3</b>	<b>Difference</b>
Agriculture	\$546.0	\$486.0	-\$60.0
Mining	\$2,860.5	\$2,432.6	-\$427.9
Utilities & Transportation	\$2,763.1	\$2,376.8	-\$386.3
Construction	\$610.7	\$585.1	-\$25.6
Manufacturing	\$3,052.0	\$2,629.1	-\$422.9
Retail & Wholesale Trade	\$1,138.6	\$906.2	-\$232.4
Information	\$945.2	\$772.0	-\$173.2
FIRE	\$5,492.1	\$4,678.3	-\$813.8
Other Services	\$1,701.6	\$1,433.7	-\$267.9
Government	\$0.0	\$0.0	\$0.0
Individual Consumers	\$17,003.2	\$14,438.1	-\$2,565.1
<b>Total</b>	<b>\$36,113.0</b>	<b>\$30,737.9</b>	<b>-\$5,375.1</b>

*Note: Totals may not sum due to rounding.*

<b>Industry</b>	<b>Current Law</b>	<b>CSHJR 3</b>	<b>Difference</b>
Agriculture	\$648.9	\$603.7	-\$45.2
Mining	\$5,417.2	\$5,350.2	-\$67.0
Utilities & Transportation	\$4,621.3	\$4,501.2	-\$120.0
Construction	\$2,608.1	\$2,852.0	\$243.9
Manufacturing	\$4,741.4	\$4,560.8	-\$180.6
Retail & Wholesale Trade	\$2,908.3	\$2,930.0	\$21.7
Information	\$1,861.3	\$1,819.6	-\$41.7
FIRE	\$6,449.0	\$5,772.8	-\$676.3
Other Services	\$5,147.4	\$5,374.1	\$226.7
Government	\$0.0	\$0.0	\$0.0
Individual Consumers	\$37,817.3	\$38,230.0	\$412.7
<b>Total</b>	<b>\$72,220.2</b>	<b>\$71,994.4</b>	<b>-\$225.8</b>

*Note: Totals may not sum due to rounding.*

### **Final Tax Incidence Impact by Income Group**

Economists commonly distinguish between the initial "impact" of a tax and its "incidence." The initial impact of a tax falls on taxpayers legally liable to pay the tax, while the incidence refers to the ultimate payer of the tax. For example, the initial impact of a business tax falls on the firm incurring the tax liability. Over time, to varying degrees, the tax cost is shifted so that the ultimate burden of the tax falls either to consumers in different retail prices, to employees in changed wages, to owners of land and capital in different investment returns, or most likely, to some combination of all three. The degrees to which a tax can be shifted, and the amount of time that elapses before a tax can be shifted, depend on the type of tax and the competitiveness of capital, labor, input material and product markets.

<b>Income Quintile</b>	<b>Current Law</b>	<b>CSHJR 3</b>	<b>Difference</b>
Less than \$37,630	\$2,650.6	\$3,001.0	\$350.5
\$37,630 - \$66,112	\$3,766.4	\$4,278.9	\$512.5
\$66,112 - \$99,619	\$5,046.0	\$5,752.2	\$706.2
\$99,619 - \$149,453	\$6,648.3	\$7,613.5	\$965.2
\$149,453 and higher	\$10,477.2	\$12,003.8	\$1,526.6
Total Resident	\$28,588.5	\$32,649.3	\$4,060.9
Exported to Non-Residents	\$7,518.7	\$8,607.2	\$1,088.4
<b>Total</b>	<b>\$36,107.2</b>	<b>\$41,256.5</b>	<b>\$5,149.3</b>

*Note: Totals may not sum due to rounding.*

<b>Table 5</b>			
FY 2021: Final Distribution of School District Property Tax - By Household Income			
Comparison of Final Tax Impact under			
Current Law vs. CSHJR 3 (\$ millions)			
<b>Income Quintile</b>	<b>Current Law</b>	<b>CSHJR 3</b>	<b>Difference</b>
Less than \$37,630	\$2,354.3	\$2,048.5	-\$305.8
\$37,630 - \$66,112	\$3,047.0	\$2,595.6	-\$451.4
\$66,112 - \$99,619	\$4,476.3	\$3,835.3	-\$641.0
\$99,619 - \$149,453	\$6,450.5	\$5,463.1	-\$987.4
\$149,453 and higher	\$12,528.3	\$10,600.0	-\$1,928.3
Total Resident	\$28,856.4	\$24,542.6	-\$4,313.8
Exported to Non-Residents	\$7,256.5	\$6,195.2	-\$1,061.3
<b>Total</b>	<b>\$36,113.0</b>	<b>\$30,737.9</b>	<b>-\$5,375.1</b>

*Note: Totals may not sum due to rounding.*

<b>Table 6</b>			
FY 2021: Final Distribution of Sales & Use + School District Property Tax - By Household Income			
Comparison of Final Tax Impact under			
Current Law vs. CSHJR 3 (\$ millions)			
<b>Income Quintile</b>	<b>Current Law</b>	<b>CSHJR 3</b>	<b>Difference</b>
Less than \$37,630	\$5,004.9	\$5,049.6	\$44.7
\$37,630 - \$66,112	\$6,813.4	\$6,874.5	\$61.1
\$66,112 - \$99,619	\$9,522.3	\$9,587.5	\$65.2
\$99,619 - \$149,453	\$13,098.8	\$13,076.6	-\$22.2
\$149,453 and higher	\$23,005.5	\$22,603.8	-\$401.7
Total Resident	\$57,444.9	\$57,192.0	-\$252.9
Exported to Non-Residents	\$14,775.2	\$14,802.4	\$27.1
<b>Total</b>	<b>\$72,220.1</b>	<b>\$71,994.3</b>	<b>-\$225.8</b>

*Note: Totals may not sum due to rounding.*

**Summary of Effective Rate Findings**

CSHJR 3 would ultimately decrease the effective tax rate of sales & use plus school district property taxes for all households by 0.02 percent for taxes effective in fiscal year 2021. The effective tax rate is the aggregate amount of tax in a given income class divided by the aggregate amount of personal income in that class. The estimated change to the effective rate by income group is displayed in Table 7.

**Table 7**  
 FY 2021: Effective Tax Rate of Sales & Use + School District Property Tax  
 Comparison of Final Tax Impact under  
 Current Law vs. CSHJR 3

<b>Income Quintile</b>	<b>Effective Rate - Current Law</b>	<b>Effective Rate - CSHJ3</b>	<b>Change</b>
Less than \$37,630	13.6%	13.8%	0.12%
\$37,630 - \$66,112	7.0%	7.1%	0.06%
\$66,112 - \$99,619	6.1%	6.1%	0.04%
\$99,619 - \$149,453	5.6%	5.6%	-0.01%
\$149,453 and higher	3.4%	3.4%	-0.06%
<b>Total Resident</b>	<b>4.81%</b>	<b>4.79%</b>	<b>-0.02%</b>

**Source Agencies:**

**LBB Staff:** WP, KK, SD