

May 2009



The 81st Legislature: An Update on Tax Issues

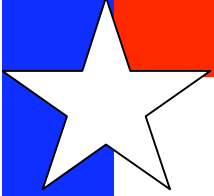
Dale Craymer
Texas Taxpayers and Research Association
(512) 472-8838
dcraymer@ttara.org

Texas Taxpayers and Research Association (TTARA)

TTARA

The Texas Taxpayers and Research Association is the state's largest business organization focusing on Texas taxes and fiscal policy. Our members are businesses and trade associations representing a broad spectrum of Texas' business community.

www.ttara.org



The 81st Legislature

Texas Legislature meets for 140 days every 2 years

- January 13: Convened
- May 15: Last day House may pass HBs
- May 27: Last day House may pass SBs
- May 31: Last day Conference Com reports
- June 1: Sine die
- June 21: Last day for Governor's vetoes

Budget

- For 2010-11, available general revenues down \$9.1 billion
- State spending demands, Medicaid, public schools, higher education put budget roughly \$5 billion short at session start
- Federal fiscal stimulus package eliminated any concern of using Rainy Day Fund or increasing taxes

Sales Tax

- Streamlined Sales Tax (for multistate sellers)
 - Strives for uniformity in tax base, definitions, and sourcing, and seeks simplicity in administration
 - Texas discomfort stems from loss of sovereignty, local sourcing (location of sale)
 - Some momentum years ago, but now stalled
 - House refused permission to introduce
- “Cap Busters”: Exceed local 2% cap (too many bills to list, all unlikely to pass)
- “Room Store”: SB1202 by Duell (sale is consummated where retailer accepts payment)



Property Tax

- Further school tax reductions (No)
- Reduction in appraisal caps (No; too many to list)
- Limits on local tax increases (**SB 2301** by Williams)
- Sales price disclosure (No: **HB 133** by Villarreal)
- Simplified notice of tax increase (**HB 1221** by Howard)



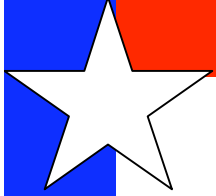
Property Tax: the Otto Package

- **HB 8:** Changes Comptroller's value study from once every year to once every 2 years; requires Comptroller study district's methods and procedures
- **HB 3611:** allows consolidation of appraisal districts (contingent on HJR)
- **HB 3612:** 3 year pilot program allowing appeal of ARB decision to SOAH in Bexar, Dallas, El Paso, Harris, Tarrant, and Travis
- **HB 3613:** homestead property value based on its actual use, not highest and best value (HJR)



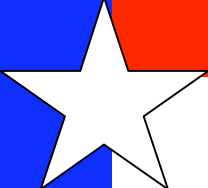
Property Tax

- **HB 3206** by Edwards: tightens methods for determining pollution control exemptions
- **HB 3676** by Heflin: Extends school tax limitation (abatement) program to 2015
- **HB 773** by Oliveira: Extends county/city abatement program

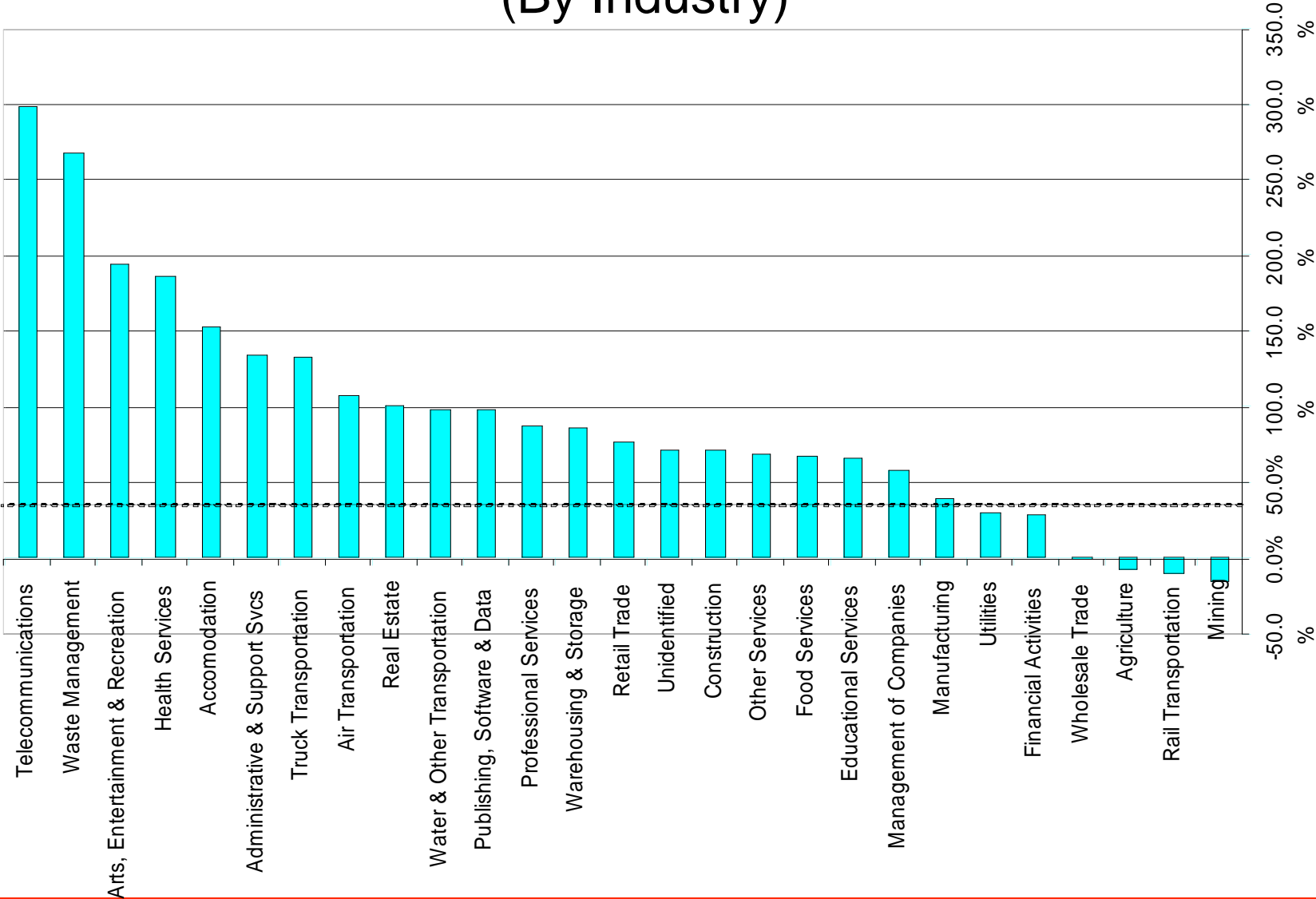


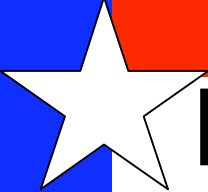
Various Concerns about the Franchise/Margin Tax

- Huge tax increases for some businesses
- No “profits sensitivity”
- Total revenue & “flow-through funds”
- Independent contractors & compensation
- Confusion over terms in statute
- Combined reporting vs. separate entity
- Revenue fell short of state’s expectations

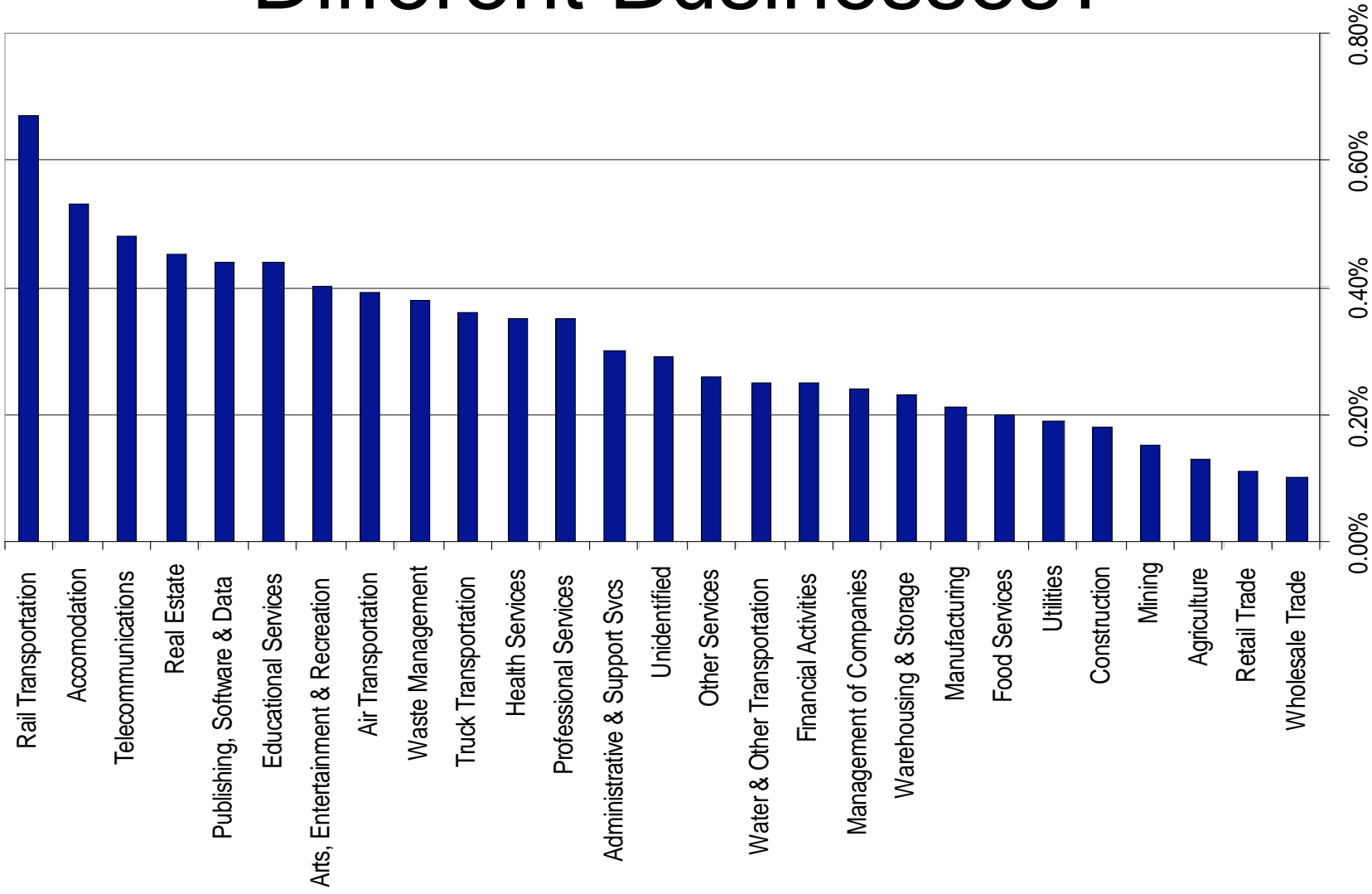


How Tax Liability Changed (By Industry)





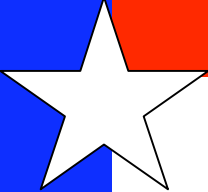
How Does the Margin Tax Affect Different Businesses?





Franchise Tax

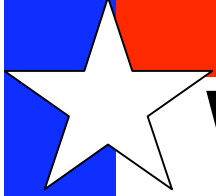
- **HB3611** by Oliveira: restores traditional apportionment on securities & loans for banks
- **HB 1976**: excludes assessments from tax base for homeowner's associations (part)
- **HB 4270** by Howard: arm's length transactions
- **HB 4265** by Howard: modifies definition of controlling interest for combined filing; allows certain entities to file combined return
- **HB 4765** by Oliveira: Temporarily increases the small business exemption to \$1 million



How Tax Liability Changed

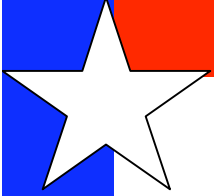
(By Size of Business)





What's the Legislature to do?

- Temporary increase in the small business exemption likely the only margin tax legislation to pass this session
 - Affects the group of taxpayer least harmed or most benefitted
 - Leaves fewer businesses in the tax base than in 2006
- A joint House/Senate committee will likely study the tax before the 2011 session
- For 2011—no promises; budget will be gruesome



Looking Ahead to 2011

- First real chance for Legislature to reform margin tax
- Public school finance may be on the table again
- Severe budget woes as Legislature may seek to cover \$13 billion of “one-time” money in the budget

May 2009



The 81st Legislature: An Update on Tax Issues



Dale Craymer
Texas Taxpayers and Research Association
(512) 472-8838
dcraymer@ttara.org

Texas Taxpayers and Research Association (TTARA)