

“INSIDE”

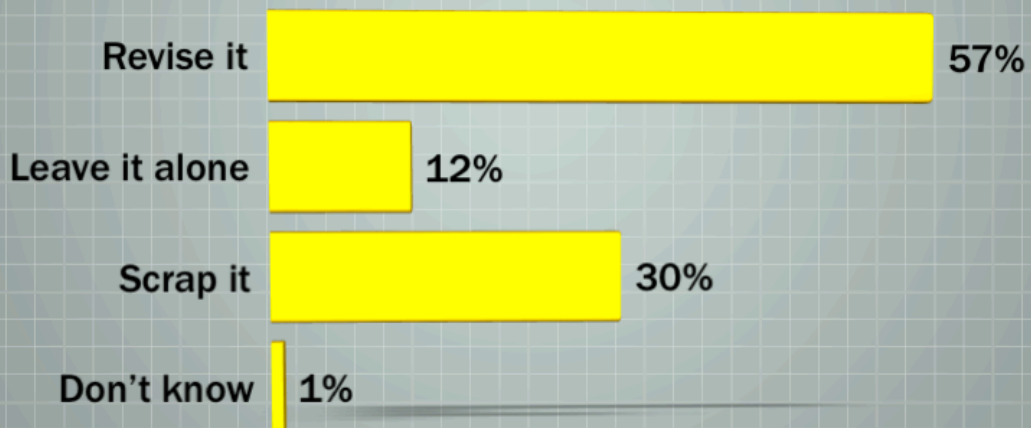
INTELLIGENCE

THE TEXAS TRIBUNE
TEXAS  WEEKLY

The insider's poll for the week of April 18.

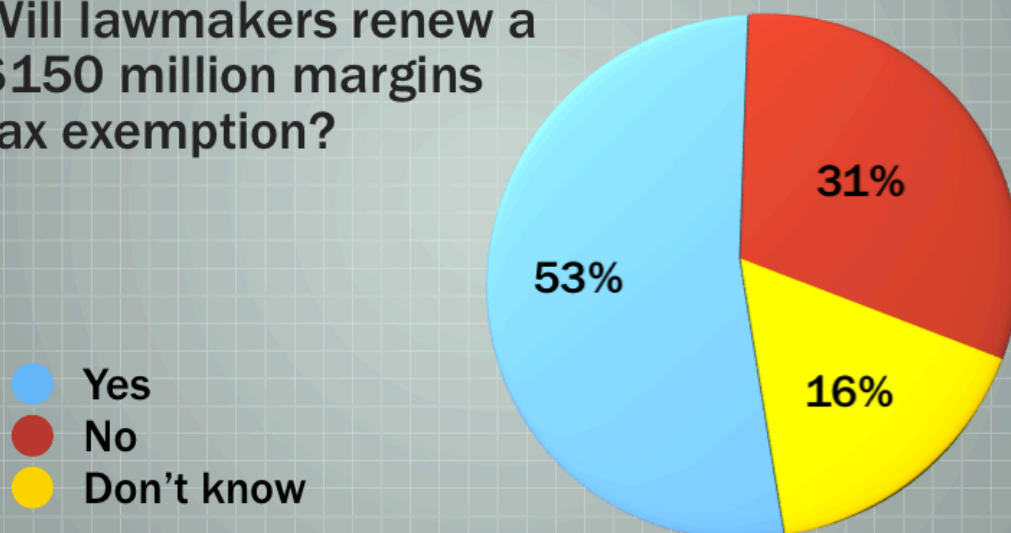
INSIDE INTELLIGENCE

Should lawmakers revise the state business tax to raise money?



INSIDE INTELLIGENCE

Will lawmakers renew a \$150 million margins tax exemption?



Will legislators spend \$150 million to renew the \$1 million exemption from the business margins tax?

- "They should as a matter of public policy let it expire. Therefore they will probably renew it."
- "House will renew it, but it dies in the Senate"
- "And it is fun watching the tax watchdogs explain why raising the money to do this does not violate the PLEDGE."
- "But it's a mistake. All they have to do is reinstate the phase-in of liability over \$600K, to remove the sudden jump in taxes owed when you hit the magic number. Much cheaper to do, and would hopefully satisfy most small businesses (except those who just don't want to pay any tax, any time). The Comptroller could also advertise how easy it is to fill out form E-Z, so that these poor guys won't keep getting soaked by accountants is some vain attempt to avoid a \$1000 tax bill."
- "This question indicates incorrect thinking that the money is the legislatures. The correct question should be 'Should the legislature confiscate \$150 million from small business to help deal with the States fiscal irresponsibility'. The answer is 'It should remain with the small businesses.'"
- "Some legislators will try to raise taxes on citizens just to give business the \$1 million exemption. An example is the bill that would double the sales tax on satellite TV users."
- "Why wasn't this change made permanent in 2009? Last time they took the full fiscal note hit but didn't make it permanent. It seems very odd to be in this position on this issue."
- "A totally uncourageous vote that 130 House members, at least, will happily cast"
- "Why? - Because its much easier to do nothing and pick up a cool \$150 mil"
- "Not doing so will be perilous for legislators wanting to avoid angering small business owners."
- "Probably the amount of exemption will be reduced."
- "If it's the wrong decision, you can generally count on the Texas legislature to make it."
- "But Democrats should pray to all things holy that the Republicans 'raise' taxes on all those small businesses."
- "I expect they will lower the exemption by broadening the base"
- "They have not been told yet"
- "The Republicans are between a rock and a hard place. They don't want to let the exemption expire, but they have no idea where to make up the revenue difference if they renew it."

- "Shortsighted politics, aiming at the Republican Primary but risking the November election."

- "This is a no brainer"

- "Don't see how they come up with the money"

- "This will be a battle worth watching to see just how much power the ideological anti-government crowd actually has in the Lege."

- "And they're idiots for doing so."

- "Absolutely. Repeal of the exemption will be branded a tax increase and thus it won't happen. Plus, hard for the Democrats to blast the current exemption, considering that one of their own (Former Ways and Means Chair Oliveira) was its author last session."

Does it make sense — politically, and as a matter of policy — to revise the state's business tax, or should it be scrapped and replaced with something else?

- "Ogden has the right idea. Scrap it for a corporate income tax. The problem is it takes a constitutional amendment."

- "Tax collections rise and fall with the economy. Good economic times = more taxes paid. Bad economic times = less taxes paid. Seems kind of simple, but then again this is politics."

- "Ill conceived, poorly drafted and rushed all with the inevitable outcome. The Governor could brag about a phantom property tax reduction and the margins tax was a failure."

- "Sharp and Perry were out of their league on this revision...ignored smarter people, as usual!!"

- "An equitable income tax for all, rather than an onerous tax that affects the state's employers, would be far more fair and would undoubtedly raise considerably more money."

- "Political sense and policy sense are two very different things. The margins tax is bad policy because it is more of a gross receipts tax. The old franchise tax was basically a corporate income tax. In general, companies are always going to be better off paying a percentage of profits. Having to pay based on gross receipts means paying tax when a company makes no money or sometimes having to pay all or most of the company's profits. We should return to the old franchise tax, but expand it to include all forms of business, as under the new margins tax. That will fix what was wrong with the old franchise tax."

- "The problem is not the "underperformance" of the margins tax; it's that the property tax cut in 2006 was far bigger than the state could possibly afford. The House version of HB 1 would have brought rates down to \$1.30, which would have worked out. The Senate dropped them to \$1.00, which was beyond the ability of the state to finance. The

resulting structural deficit should not have been a surprise to anyone. The fiscal notes at the time showed a \$6 billion/biennium disparity, which for various reasons is now \$10 billion. Rene Oliveira voted against the conference committee report on HB 1 and inserted a statement about the imbalance it would create in future state budgets. Anyone with their eyes open could have seen it, regardless of how John Sharp is now anxiously trying to re-write history."

- "For the state to grow and succeed, business needs to step up and be an active voice for education. No workforce, no business. It ain't that hard."
- "The tax was designed to broaden the base to take the load off of an asset-based system. Since the tax broadened the base, but did not raise the revenue needed, perhaps a mix of the current system with an asset-based component would be fair. I know those who were high-payers under an asset-based system will squawk loudly, but they sold the state a pig in a poke and need to be part of the solution."
- "Now is not the time to be changing the business tax. The budget should be balanced on existing revenues. Add redistricting into the mix and the legislature has more than it can handle. Once these two items are taken care of, education funding needs to be addressed and all the taxes that go along with it."
- "Don't enact a new tax to give small business' a \$1 million exemption."
- "#1 We can't go back, legally or as a practical matter, to the old system. #2

The franchise levy in Texas is proportional to what other states raise, so we've got it just about right as it is. #3 The franchise tax is NOT the cause of the current fiscal troubles. 'Fix the franchise tax' has become lazy political shorthand for 'let's raise a whole bunch of new tax money to plug the future structural shortfall in the budget.' If you tripled the franchise tax that change would not fix the budget."

- "Politically, this might be the only solution. Our legislative majority is so fearful of ANYTHING looking like a tax increase that scrapping and starting over is impossible. Of course, I'm waiting to see how those same folks try to explain billions in 'cost recovery items' as anything else than new taxes at primary time...."
- "It's not working and needs to be fixed - businesses experiencing losses as they have in a down economy shouldn't have to be hit harder than they were already - in some cases for some industries - much harder. If we are worried about the exemptions that allow businesses to show a loss then look at that, but far too many small to medium sized businesses were hit hard when they should be allowed to reinvest in their own companies and expand. Sure you can exempt employee benefits but as one of the largest expenses in most business, you can't exempt from which you do not have."
- "It has underperformed and needs revision. But lots of other tax laws need revisions, too."
- "The margins tax was put in place to purchase a certain amount of property tax relief. It is not raising enough

money to purchase that amount of relief. The only long term options are either to raise the margins tax (or its successor) to purchase the amount of property tax relief promised or have property taxes rise to the level of the actual shift."

- "We can't balance the books on cuts alone. Everyone with a brain knows it but only those with a backbone are admitting it publicly."

- "Despite the merit, extremely unlikely given the current make up of the legislature, not to mention certain folks looking for greener political pastures."

- "It is too late to scrap it and start over. We've known this was a bum system for a few years. The time to find a fix for it was during the interim."

- "The concept of paying a business tax on a negative balance sheet is absurd."

- "The business tax should be as low as possible and broadly applied."

- "Poor plan poorly executed ab initio. This notion that it is 'under-performing' or that it is somehow 'structurally flawed' is nothing more than euphemistically complaining that the rate isn't high enough. But be assured that sometime before football season, someone will decide that it's really not a tax bill after all if all they're doing is 'tweaking the

formula'. Nonsense of course, but there it is."

- "Broader base is needed"

- "Tax policy is all about winners and losers, but we've reached the point where the winners risk becoming losers, all because there's not sufficient revenue to fund state services even at Texas' minimal level."

- "An income tax will not sell in Texas, only other way to raise this type of money, increase the sales tax rate, and or remove some of the exemptions, liberals like Scott McCown just want to raise taxes on business."

- "Should go back to the old franchise tax, close the loopholes, and lower the rate to an appropriate level."

- "I don't believe the political will exists to scrap the margins tax and start over, though that might be the most effective option. Rather, closing some loopholes would seem to offer the path of least resistance to raise desperately needed revenue."

- "Revising it would make sense - which is why it won't happen this session."

- "Fixing the broken margins tax is a policy necessity and a political nightmare. Thus, nothing will be done til the lights really are turned off."

What's the smartest cut lawmakers have made in their state budget proposals?

- "General government budget"
- "Educational Region Service Centers"
- "College for Prisoners"
- "Housing for TDC employees. It plays politically."
- "Their own legislative budgets."
- "Cut college loans for prisoners"
- "When you don't have money to spend you cut. It's that simple, not smart."
- "NONE"
- "Cutting non-teaching jobs in school districts"
- "State employees and higher ed"
- "None. I would call them 'smart' if they would look at raising appropriate taxes and fees to pay for essential services such as education and Medicaid."
- "Enterprise and Technology Funds, oh wait . . ."
- "Movie incentive fund"
- "In this environment there are no smart or dumb cuts. Everything got whacked, so I would not give credit or blame to the legislature for any of the specific cuts."
- "Texas Enterprise Fund, if they actually do it."
- "Nothing yet"
- "Can't comment"
- "Decreasing special funds for aspiring research universities and putting the money into teaching formulas."
- "Gov slush fund"
- "Public Education cuts"
- "Intelligence not a feature of current budget."
- "Railroad Commission"
- "I'm not sure any of the cuts are 'smart'. You might be able to cut 5 - 7% without too much adverse impact, but the deep cuts they made will have long term and in many cases, irreversible impacts."
- "All of them"
- "Don't know"
- "Haven't found it yet."
- "Their own office budgets"
- "Enterprise Fund"
- "Schools - its time to hold our schools more accountable. Nothing does that better than competition, hopefully this is the first step. However if we allow for mediocrity it will continue to fester in our schools at the expense of our children AND the many excellent teachers that we have that are having to fight

mediocrity in their own ranks. The lowest common denominator is always the public face of any coalition - the world judges a book by its cover, you can set your clock to it."

- "Um."
- "TEF"
- "Not over yet."
- "That is difficult to determine."
- "The across-the-board cut. It limited the ability to complain that my program is being cut unfairly."
- "Cutting funding for the Governor's Office by 17% was a good start. I'd double that. It's paradoxically sick, but zeroing out the Teach for Texas Loan Repayment Program makes sense. If we're laying off tens of thousands of teachers, why recruit more?"
- "Roughly \$4 million in underage tobacco enforcement grants."
- "State-Fed Relations. Since Perry is fundamentally opposed to federal funding, it doesn't appear that we need someone to lobby for more money."
- "They are not making many smart cuts."
- "School funding, even the most sacred cow needs an enema from time to time."
- "I do believe there are savings to be had in the public school system in the non-teacher employee base."
- "No opinion"

• "Forced sonograms and voter ID. Oh wait, they are actually adding to the budget for that."

- "There are very few smart cuts, perhaps the ones that impacted arts, and prison housing subsidies"
- "Governor's economic development incentives."
- "Trading arts etc for nursing home \$"
- "Governors pet projects."
- "ETF"
- "Don't know"
- "Their per diem"
- "Not tapping all of the Rainy Day fund to reduce the severity of the cuts."
- "Too early to tell"
- "Non essential agency cuts like historical and cultural"
- "Smart?"
- "The house should have approved the ken Paxton amendment to reduce the salary of high paid state employees, and use the money for education"
- "The Governor's Emerging Technology Fund (ETF)."
- "Higher education"
- "If there are smart cuts, it is likely by accident and not intentional."

- "I didn't know this bunch did anything smart"
- "?"
- "I have not seen even on"
- "Governor's Office"
- "???"
- "Not sure if any of them count as 'smart,' but we'll probably make it through the next 2 years okay without 'abstinence-only education.'"
- "I don't know"
- "Windham School District"
- "DK"
- "Governor's slush funds"
- "Don't know"
- "Movie subsidies"
- "Nothing like 'Wow, that was really smart' comes to mind."
- "The House cutting the \$100 million in new fees."
- "Not spending the Rainey Day fund."
- "Cutting the Arts Commission"
- "The results are in. The state's economic development funds have done little to attract the promised high wage jobs. Plus, it might be the one thing that Scott McCown and Michael Quinn Sullivan agree on this session."

What's the dumbest cut?

- "Public education"
- "Public education"
- "Nursing homes by 34%"
- "Anything that costs federal matching money."
- "Take your pick from Art. 2 and 3"
- "Cuts to Medicaid"
- "When you don't have money to spend you cut. It's that simple, not dumb."
- "Texas Historical Commission"
- "Healthcare insurance for poor and home health care for elderly."
- "Public ed and Medicaid"
- "The Texas Historical Commission. Purely punitive."
- "Public and Higher Education - can you say more prisons?"
- "Schools"
- "Notwithstanding the previous answer, reducing spending for Public Ed is not going to go over well with suburban soccer mom's in republican districts. I would be most careful if I

were a Republican legislator with my position on public ed spending."

- "TEXAS grants"
- "Education"
- "Can't comment"
- "Releasing terminally ill prisoners without insurance into the stressed indigent healthcare system."
- "There is still plenty of competition for this honor. To early to tell."
- "Health and Human Services"
- "All of the family planning cuts are horrendously short-sighted."
- "Education"
- "Education at every level."
- "Reducing the size and scope of government intervention into the lives of free people is never dumb."
- "The cuts to Health care services."
- "Cutting Medicaid in violation of federal law."
- "Several penny-ante (by comparison) agricultural programs that actually protect the security and safety of the state's second-largest industry"
- "Border Security"
- "Schools - the electorate judges a book by its cover, you can set your clock to it every November"
- "Cutting the 4 community colleges in the filed House budget."

- "Community colleges"
- "Not sure going in if right wing Rs understood the impact of Medicaid on small town/rural healthcare."
- "Education, particularly higher education."
- "The across-the-board cut. It fails to recognize the state does have priorities."
- "We're talking about shadings of evil here. As a parent of children in public schools, I am a little frightened about them eliminating funding for criminal background checks on school employees. But cutting Medicaid funding for nursing homes will probably end up killing people. There will be more poor people dying in hideous circumstances because of this cut."
- "Public school cuts."
- "Nursing homes. Baby boomers are going to revolt at the polls if they have to suddenly start taking care of their aging parents. Taking away 'out of sight...out of mind' for a crucial swing bloc of voters will hurt in 11/2012."
- "To Mental Health services, and to criminal justice funding."
- "There are no dumb cuts. Government is most dangerous when it is running a surplus."
- "Matching grants for basic research (ETF, TRIP funds)."
- "No opinion"
- "Public education"

- "Foundation School Program"
- "Dumbest? Family planning. (Meanest: nursing home cut)"
- "Mental health"
- "Public Education!!"
- "Anything education related"
- "Art 2, Art 3"
- "Old folks --little kids--education"
- "The severe reduction in funding for K-12 education."
- "Too early to tell"
- "Education and financial aid- leads to a weaker, non- competitive workforce."
- "The list is too long for this small text box."
- "Politically, any cut in education"
- "Cuts to programs assisting minority access to higher education."
- "Public education"
- "Women's health program"
- "Gut nursing home care. Some of them will end up there."
- "Massive cuts to public ed."
- "The cut of the Texas Grants Program"
- "Where to start - public ed, higher ed"
- "Proposed budget cuts to Texas Grants and other college access initiatives will end up costing the state in the long run on workforce and economic development."
- "It's hard to know where to start, but all the cuts in child protective services, adoption services, etc., are going to come back to haunt us."
- "Public education"
- "Probation funding"
- "DK"
- "Education"
- "Schools"
- "Higher Ed"
- "Too many candidates to single out one winner."
- "None. Cutting the size government is always a good idea."
- "Cutting mental health. The result tends to be an increase in spending for county jails."
- "Cutting public education"
- "The research is clear and obvious, the sooner we invest in young children the bigger the returns on that investment. Cutting education and health care for kids under 5 makes absolutely no fiscal or moral sense."

Our thanks to this week's participants: Gene Acuna, Brandon Aghamalian, Charles Bailey, Reggie Bashur, Leland Beatty, Mark Bell, Allen Blakemore, Tom Blanton, Steve Bresnen, Linda Bridges, Chris Britton, Andy Brown, Tris Castaneda, Elizabeth Christian, Rick Cofer, Harold Cook, Eva De Luna-Castro, Hector De Leon, Tom Duffy, Jeff Eller, Alan Erwin, John Esparza, Jon Fisher, Robert Floyd, Dominic Giarratani, Bruce Gibson, Scott Gilmore, John Greytok, Michael Grimes, Wayne Hamilton, Jim Henson, Ken Hodges, Steve Holzheuser, Deborah Ingersoll, Cal Jillson, Jason Johnson, Mark Jones, Pete Laney, Dick Lavine, Donald Lee, Vilma Luna, Matt Mackowiak, Gray Mayes, Scott McCown, Mike McKinney, Bee Moorhead, Steve Murdock, Keir Murray, Gardner Pate, Karen Reagan, Carl Richie, Jason Sabo, Luis Saenz, Jim Sartwelle, Stan Schlueter, Christopher Shields, William Siebert, Ed Small, Martha Smiley, Todd Smith, Dennis Speight, G. Sprinkle, Jason Stanford, Keith Strama, Bob Strauser, Colin Strother, Michael Quinn Sullivan, Russ Tidwell, Trey Trainor, Ken Whalen, Darren Whitehurst, Chad Wilbanks, Peck Young, and Angelo Zottarelli.