

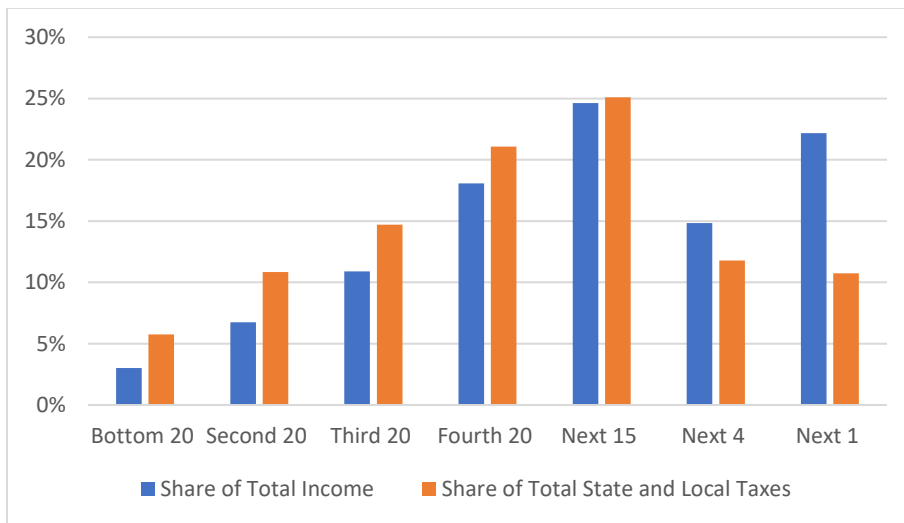
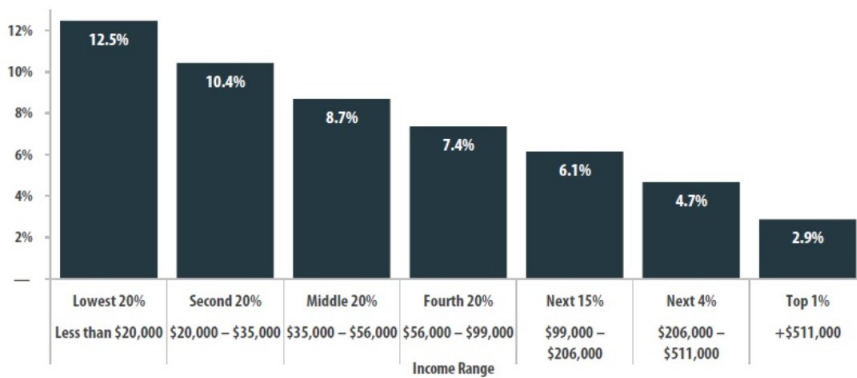
ADDITIONAL RESOURCES ON REVENUE IDEAS FOR THE TEXAS EDUCATION FINANCE COMMISSION

APRIL 19, 2018

DISTRIBUTIONAL CONSIDERATIONS

State & Local Taxes in 2015

Shares of family income for non-elderly taxpayers



	Share of Total Income	Share of Total State and Local Taxes
Bottom 20	3%	6%
Second 20	7%	11%
Third 20	11%	15%
Fourth 20	18%	21%

Next 15	25%	25%
Next 4	15%	12%
Next 1	22%	11%
Top 20	62%	48%

- Observations:
 - Starting out, Texas has an unbalanced tax system (folks are paying a higher share of total tax than the amount of income they have).
 - Every revenue option discussed today is going to have the impact of agitating this imbalance—raising a higher share of the tax on families with less of the income.
 - From the perspective only of tax adequacy (setting aside issues of fairness), part of the long-term answer needs to be shifting away from reliance on taxpayers with less of the income.

E-CIGARETTES

- BNA, Extras on Excise: While States Start Taxing E-Cigarettes, Proposed Federal Restrictions Go Up in Vapor: <https://www.bna.com/extras-excise-states-b73014449960/>
- Current E-Cigarette Taxes
 - Based on Percentage of Purchase Price:
 - California - 27.30 percent of wholesale price
 - District of Columbia - 67 percent of wholesale price
 - Minnesota - 95 percent of wholesale price
 - Pennsylvania - 40 percent of retail price
 - Based on Milliliters of Consumable Product:
 - Kansas - \$0.20 per milliliter
 - Louisiana - \$0.05 per milliliter
 - North Carolina - \$0.05 per milliliter
 - West Virginia - \$0.075 per milliliter
- States considering it
 - In [2015](#) alone, 23 states contemplated excise taxes for e-cigarettes, indicating that e-cigarette taxes are on many jurisdictions' radar and that more legislation and regulations are sure to follow.

ELECTRIC CARS

- Green Tech Media: <https://www.greentechmedia.com/articles/read/13-states-now-charge-fees-for-electric-vehicles#gs.3xZ38eQ>

GROCERIES

- CBPP, Which States Tax Food for Home Consumption? (2017):
<https://www.cbpp.org/research/state-budget-and-tax/which-states-tax-the-sale-of-food-for-home-consumption-in-2017>
 - About
 - 45 states and DC levy general sales taxes. Most have eliminated, reduced, or offset the tax as applied to food for home consumption.
 - 32 and the District of Columbia exempt most food purchased for consumption at home from the state sales tax.
 - West Virginia is the state that most recently eliminated its sales tax on food (effective July 1, 2013).
 - 6 tax at lower rates; they are Arkansas, Illinois, Missouri, Tennessee, Utah, and Virginia
 - 4 states— Hawaii, Idaho, Kansas, and Oklahoma — tax groceries fully but offer credits or rebates offsetting some of the taxes paid on food by some portions of the population.
 - These credits or rebates usually are set at a flat amount per family member. The amounts and eligibility rules vary, but may be too narrow and/or insufficient to give eligible households full relief from sales taxes paid on food purchases.
 - 3 states continue to apply their sales tax fully to food purchased for home consumption without providing any offsetting relief for low- and moderate-income families. They are Alabama, Mississippi, and South Dakota.
- PEW, Decried As Unfair, Taxes on Groceries Persist in Some States:
<http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2016/08/16/decried-as-unfair-taxes-on-groceries-persist-in-some-states>

MARIJUANA

- Interested in learning more?
 - Talk to state revenue departments in Colorado, Washington, Nevada, and Alaska.
 - CO & WA the longest standing
- Precedence in red states and among conservative politicians?
 - Nevada and Alaska now tax
 - John Boehner (pronounced Bayner) new spokesperson for a cannabis company
- Tax Foundation, Marijuana Legalization and Taxes: Lessons for Other States from Colorado and Washington: <https://taxfoundation.org/marijuana-taxes-lessons-colorado-washington/>

MILAGE TAX

- ITEP, Pay-Per-Mile Tax Is Only A Partial Fix: <https://itep.org/wp-content/uploads/vmttax0514.pdf>

MOTOR FUEL TAX

- ITEP, Building A Better Gas Tax: <https://itep.org/wp-content/uploads/bettergastax/bettergastax.pdf>
- ITEP Analysis:
 - Increasing motor fuel tax (gasoline and diesel) by 15 cents a gallon would raise \$2.9 billion in CY 2018.

OVER THE COUNTER DRUGS

- States where over the counter drugs are exempt: <https://blog.taxjar.com/sales-tax-state-prescription-nonprescription-medication-taxable/>
 - 10: TX, MN, VA, MD, PA, DC, NY, CT, NJ, VT
 - 4 states no sales tax: AK, MT, MH, DE
 - All others tax

PROPERTY vs. SALES TAX

- Nationwide
 - 40% property tax exported
 - 22% sales tax exported
- In TX, about the same
 - Due to preferential treatment of commercial properties and agriculture
 - Agriculture exemption approaches \$4 billion

PROPERTY TAX EXEMPTIONS

- Pitfalls: Despite intentions, so many ways economic incentives fail to live up to their stated goals
 - Primarily a windfall
 - Taxes make up on average 1.8% of total business expenses—have to be operating on really thin margins for that to make a difference
 - Academic estimates show 9/10 decisions in which incentives were given would have occurred regardless
 - Benefits don't stay in state
 - Purchase equipment out of state
 - Hire out of state workers
 - Increased federal taxes

- Displacement not growth
 - One company benefiting at the expense of competitors
 - Poaching from another jurisdiction not the same as generating new activity
- Neglected alternatives
 - Incentives come at the cost of other economic development—investments in public education, infrastructure, workforce development, etc.
- Good Jobs First, About Property Tax Abatements: <https://www.goodjobsfirst.org/accountable-development/property-tax-abatements>
- Good Jobs First, Protecting Public Education from Tax Giveaways to Corporations: <http://www.goodjobsfirst.org/sites/default/files/docs/pdf/edu.pdf>
- Good Jobs First, Reform #4: Protect Schools from Tax Giveaways: <https://www.goodjobsfirst.org/accountable-development/key-reforms-protecting-schools>
- Good Jobs First, On Economic Development Subsidy Reforms: <https://www.goodjobsfirst.org/accountable-development/key-reforms-overview>
- ITEP, Tax Incentives Costly for States, Drag on Nation: <https://itep.org/wp-content/uploads/taxincentiveeffectiveness.pdf>
- PEW, How States Are Improving Tax Incentives for Jobs and Growth: <http://www.pewtrusts.org/en/research-and-analysis/reports/2017/05/how-states-are-improving-tax-incentives-for-jobs-and-growth>
- PEW, State Tax Incentive Evaluation Rankings: <http://www.pewtrusts.org/en/research-and-analysis/analysis/2017/05/03/state-tax-incentive-evaluation-ratings>
 - TX: <http://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2017/05/state-tax-incentive-evaluation-ratings-texas>
 - Making progress (adopted a plan for regular evaluation)
 - Could do even better
 - No specified time for review—better to adopt a schedule
 - Create role for professional staff or outside experts to study

RIDE SHARING

- ITEP, Taxes and The On-Demand Economy: <https://itep.org/wp-content/uploads/ondemandeconomytaxes0317.pdf>
- ITEP, Taxing the Gig Economy: <https://itep.org/taxing-the-gig-economy/>
 - Taxi rides are one service that has long been among those typically exempt from most state and local sales taxes
 - BUT there are more than half a dozen states that apply their sales taxes to taxis and similar services.

- In the context of the on-demand economy, this matters because Uber and other transportation network companies (TNCs) are providing a service nearly identical to taxi rides. But their tax treatment has not always reflected this fact.

SALES TAX BASE EXPANSION

- Sales tax on services
 - Tax more services than most states (good)
 - Some room for improvement (tax expenditure report good source for information on this)
 - Professional services (legal, accounting)
 - Can exempt business to business transactions
 - Why tax automotive services but not professional?
 - Blue vs. white collar
 - Opportunities keeping up with 21st Century Economy
 - Digital goods

SALES TAX HOLIDAYS

- ITEP, Sales Tax Holidays: An Ineffective Alternative to Real Sales Tax Reform: <https://itep.org/wp-content/uploads/SalesTaxHolidays2016.pdf>
- ITEP, States May Finally Be Learning Their Lesson On Back-to-School Sales Tax Holidays: <https://itep.org/states-may-be-finally-learning-their-lesson-on-back-to-school-sales-tax-holidays/>
 - North Carolina eliminated its holiday in 2013 (as part of a larger income tax cut package)
 - Florida has recently pared its holiday back considerably
 - 2017 Georgia lawmakers decided the loss of \$70 million to state revenues for important services like schools and public safety was not worth the trouble
- Tax Foundation, Sales Tax Holidays: Politically Expedient, But Poor Tax Policy, 2017: <https://taxfoundation.org/sales-tax-holidays-2017/>
 - Sales tax holidays do not promote economic growth or significantly increase consumer purchases; the evidence (including a new 2017 study by Federal Reserve researchers) shows that they simply shift the timing of purchases. Some retailers raise prices during the holiday, reducing consumer savings.

OTHER NON-INCOME TAX STATES

- Income Tax Offers a Bright Future for Alaska: <https://itep.org/wp-content/uploads/AKPITvsSalesTax.pdf>

Lisa Christensen Gee
Senior State Tax Policy Analyst
Institute on Taxation and Economic Policy

- Comparing the Distributional Impact of Revenue Options in Alaska:
<http://dhss.alaska.gov/abada/Documents/BethelMaterials5-16-17/Comparing%20the%20distributional%20impact%20of%20revenue%20options%20in%20Alaska.pdf>