Texas Public Policy Foundation

Evaluating Equity in HB 3:
Exercise Care with LBB's Analysis

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The Legislative Budget Board has said, in an equity note, that only the 10 percent of households with the highest incomes are getting a tax break under House Bill 3. During the first special session, Senator Ogden refused to request an equity note, declaring the LBB's methodology suspect. The following should be considered when reviewing the LBB's equity calculations:

- A dynamic analysis produced by the Comptroller for HB 3 in the first special session indicated 61,000 new jobs. Since these jobs would primarily be in capital-intensive industries (i.e., manufacturing), they would not likely pay enough to place people in the highest income group, meaning the tax change would benefit low- and middle-income wage earners. Either the LBB or the Comptroller is wrong. Both analyses cannot be right.

- The Comptroller's tax incidence analysis indicates the lowest 10 percent of income earners pay a little over 3 percent of the sales tax and about the same percentage of the property tax. On the other hand, this same group pays a little over 5 percent of the franchise tax. Yet, it is supposedly the shift to the sales tax that more heavily impacts low-income taxpayers. Again, only the Comptroller or the LBB, but not both, can be correct.

- On its face, the LBB analysis appears flawed. HB 3 proposes a 29 cent reduction in property tax rates and a 50 percent increase in the homestead exemption. For a Texan owning a median-valued home ($129,700) to see his tax bill increase with the proposed three-quarter cent increase in the sales tax rate, he would have to spend $56,533 on sales taxable items. Even if the median home is only 150 percent of income ($86,500) there is little likelihood that so much would be spent on taxable items even after accounting for motor vehicle repair.

- Non-homeowners are benefited from the property tax decrease as well. Competition will drive down rental rates. The LBB's analysis fails to take into account the effects of job creation in the manufacturing sector as a result of the property tax reduction. This is difficult, indeed impossible, to do with the precision presumed in the LBB's numbers.

- The LBB has not revealed the methodology employed making its analysis difficult to evaluate. It is not at all uncommon for two different economic models, seemingly reasonably constructed, to produce completely contradictory predictions, especially if one model is static and the other is dynamic

- No economic model can be fully tested for its predictions. There is not an economic model in existence that can be said to be fully reliable. Too many circumstances that cannot be anticipated by such models change unexpectedly.

- If economic modeling were reliable, there would be no debate regarding policy. The models would determine optimal policy automatically. Multiple models can be used to aid policymakers, but only when their strengths and weaknesses are fully understood. None do more than provide a brief, fuzzy snapshot of one potential outcome of a policy; no single model should be relied upon to determine public policy decisions.

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