

# Testimony before the Senate Committee on Finance Subcommittee on Fiscal Matters *Regarding House Bill 213*

By James Quintero, Senior Fiscal Policy Analyst

Chairman Hegar and Members of the Committee:

My name is James Quintero, and I am the fiscal policy analyst at the Texas Public Policy Foundation, a non-profit, non-partisan free market think tank based here in Austin. Thank you for taking this opportunity today to discuss House Bill 213, a bill to make permanent the small business tax exemption and gradually increase the threshold over a multi-year period. This bill, if passed, stands to benefit thousands of small businesses by taking the guesswork out of the Texas Tax Code.

To be clear, I will be testifying in support of HB 213.

The Foundation supports HB 213 for two primary reasons: certainty and tax relief. Both of these ingredients are essential to keeping Texas businesses competitive and thriving.

**Small businesses need certainty.** Under the current margin tax system, the \$1 million small business tax exemption fluctuates on a biennial basis, requiring the Legislature to adjust the threshold each time they meet. This puts many small businesses with total revenues of \$1 million or less in the difficult position of not knowing with certainty whether they will be subject to the margin tax or not.

Texas cannot continue to be America's economic engine if our small businesses and entrepreneurs are focused more on the Tax Code than on growing their businesses.

**Small businesses need tax relief.** Although Texas is widely regarded as a low tax state, this is only true if you are an individual taxpayer, not a business taxpayer. Consider that:

- The Texas Taxpayers and Research Association recently ranked Texas' state and local burden for individuals as the 46th lowest in the nation; however, Texas' state and local tax burden for businesses ranked as the 21st highest.
- The Tax Foundation ranks Texas' corporate tax environment as the 38th least friendly in the U.S. The Tax Foundation cites the complexities and compliance costs surrounding the margin tax as the primary reason.
- The Business Tax Advisory Committee in a January 2013 report estimated that almost two-thirds (64.8 percent) of the total state-local tax burden is shouldered by Texas businesses.

Texas businesses are clearly facing a less than ideal tax climate; but it would be a mistake to think that those businesses are just absorbing those costs. When a business' tax burden grows, those higher costs are passed on to consumers in the form of higher prices, to employees in the form of lower wages, and to shareholders in the form of lower rates of return on their investment.

In other words, House Bill 213 may be directed at Texas businesses, but it will help indirectly lift everyone as businesses pass along those savings.

Thank you for your time, and I look forward to answering any questions. ★