

Texas Public Policy Foundation

Spending

Legislator's Guide to the Issues 2017-18



Sales Tax Reduction Fund



The Issue

The 2016-17 state budget of \$209.1 billion funds education, health care, and all other areas of the budget. This budget is up 68.5% since the 2004-05 budget. However, the key measure of estimated compounded population growth plus inflation is up only 51% in that period. Had the budget followed this key measure since the 2004-05 budget, Texans would be paying \$22 billion less in taxes and achieving greater prosperity.

Fortunately, the 2015 Legislature passed a budget that increased by 2.9% above the previous biennium's spending level, which was less than this key measure, but there is much more work to do. One way to continue correcting past excesses is to cut ineffective budget items.

While members attempt to reduce the amount of spending on specific programs by offering budget amendments in the appropriations process, this normally does not lead to an overall reduction in spending. Such amendments simply set aside the money cut from one program and make it available for members to appropriate for other purposes, which interested parties earnestly seek.

To resolve the incentive to spend every available dollar, a mechanism should be created that allows dollars cut from one area of the budget to be transferred to a special fund that allows legislators to actually reduce the bottom line of the budget. Dollars in the fund would accumulate until the appropriations bill is adopted. The Texas Comptroller would then determine the rate decrease and temporary period of reducing the broadest based and easiest to administer state tax (sales tax) such that the Fund is depleted. After the determined period, the tax rate would automatically revert to its original level.

The broadest, most visible, and easiest to administer tax in Texas is the state's sales tax. Therefore, this mechanism is called the Sales Tax Reduction (STaR) Fund. The many influential members of the American Legislative Exchange Council's Tax and Fiscal Policy Task Force passed a version of it last year as model legislation. A summary of the Tax Reduction Fund language follows:

"The Tax Reduction Fund is a special fund that consists of money transferred to it by the legislature and any interest earned on money in the fund that can be used to temporarily reduce a state's tax rate. The goal of the Tax Reduction Fund is to lower the bottom line of the budget by transferring funds that may be available in the budget that would otherwise be spent and returning those dollars to taxpayers by reducing the broadest state tax."

After the STaR Fund is created, it could be funded by: 1) Legislators appropriating dollars that are from a budget surplus or saved dollars from less spending on state programs; and 2) Funds in excess of the Economic Stabilization Fund's (ESF) cap may flow directly into it rather than back into general revenue.

For the 2016-17 biennium, the Texas Comptroller calculates an ESF cap of \$16.2 billion. Although the balance will likely fall below the cap at roughly \$10.4 billion by the end of fiscal 2017, the cap could be reached in the near future.

With the potential of a tight budget next session, legislators will be challenged with scrutinizing every dollar in the state's budget to restrain the size and scope of government. Instead of spending these excess funds, a better choice is to restrain government spending and provide sales tax relief; however, the difficulty for legislators to attempt to do this starts in the appropriations process.

A valuable way to reduce spending levels through the appropriations process is to include taxpayers as one of the funding constituents. With excess past spending and a rising amount available in the ESF, a priority must be to reduce the bottom line of the budget such that the good tax climate that has resulted in great economic prosperity in Texas will continue.

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The Facts

- The current appropriations process, in the House, does not allow for funds cut on programs to reduce the bottom line of the budget. Instead, these funds are available to be appropriated on other programs.
- The Texas Comptroller projects that the ESF will be roughly \$10.4 billion by the end of 2017, reaching towards the cap of \$16.2 billion, and could reach it in the near future.
- By including taxpayers as a funding constituent, more funds available by reducing the bottom line of the budget can be used to provide tax relief.

Recommendations

- Create the STaR Fund in 2017 to provide a means in 2019 and beyond for reducing the bottom line of the budget while returning those dollars to the taxpayers by temporarily reducing the state's sales tax rate.
- By appropriating dollars that were earmarked for budget growth directly into the STaR Fund along with excess dollars in the ESF to provide a temporary reduction in the state's sales tax rate, legislators can restrain the growth of government.

Resources

[*Tax Reduction Fund—Model Legislation*](#), American Legislative Exchange Council (Sept. 2015).

[*Protecting Texas Taxpayers: the Sales Tax Relief Fund*](#) by Talmadge Heflin and Vance Ginn, Texas Public Policy Foundation (April 2014).

