

Tax Exemptions & Tax Incidence

A Biennial Report Produced by
The Texas Comptroller of Public Accounts

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- Report is submitted to the Texas Governor, Lieutenant Governor, House Speaker, and Legislative Members in early months of odd-numbered years, namely, the time that the Texas Legislature begins its biennial sessions.
- First report was submitted in 1989 and subsequently every two years since that date.
- The current report can be found at
<http://www.window.state.tx.us/taxinfo/incidence09>
- 2001 and later reports can be found at
<http://www.window.state.tx.us/taxinfo/incidence/>

Origin of the exemption part of the report is Section 403.014 of the Texas Government Code as originally written by the 70th Regular Session of the Texas Legislature to become effective September 1, 1987.

Sec. 403.014. REPORT ON EFFECT OF CERTAIN TAX PROVISIONS.

- (a) Before each regular session of the legislature, the comptroller shall report to the legislature and the governor on the effect, if it is possible to assess, of exemptions, discounts, exclusions, special valuations, special accounting treatments, special rates, and special methods of reporting relating to:
- (1) sales, excise, and use tax under Chapter 151, Tax Code;
 - (2) franchise tax under Chapter 171, Tax Code;
 - (3) school district property taxes under Title 1, Tax Code;
 - (4) motor vehicle tax under Section 152.090; and
 - (5) any other tax generating more than five percent of state tax revenue in the prior fiscal year.
- (b) The report must include:
- (1) an analysis of each special provision that reduces the amount of tax payable, to include an estimate of the loss of revenue for a six-year period including the current fiscal biennium and a citation of the statutory or legal authority for the provision; and
 - (2) for provisions reducing revenue by more than one percent of total revenue for a tax covered by this section:
 - (A) the effect of each provision on the distribution of the tax burden by income class and industry or business class, as appropriate; and
 - (B) the effect of each provision on total income by income class.

Origin of the incidence part of the report is Section 403.0141 of the Texas Government Code as originally written by the 75th Regular Session of the Texas Legislature to become effective September 1, 1997.

Sec. 403.0141. REPORT ON INCIDENCE OF TAX. (a) Before each regular session of the legislature, the comptroller shall report to the legislature and the governor on the overall incidence of the school district property tax and any state tax generating more than 2.5 percent of state tax revenue in the prior fiscal year. The analysis shall report on the distribution of the tax burden for the taxes included in the report.

(b) At the request of the chair of a committee of the senate or house of representatives to which has been referred a bill or resolution to change the tax system that would increase, decrease, or redistribute tax by more than \$20 million, the Legislative Budget Board with the assistance, as requested, of the comptroller shall prepare an incidence impact analysis of the bill or resolution. The analysis shall report on the incidence effects that would result if the bill or resolution were enacted.

(c) To the extent data is available, the incidence impact analysis under Subsections (a) and (b):

- (1) shall evaluate the tax burden:
 - (A) on the overall income distribution, using a system wide incidence measure or other appropriate measures of equality and inequality; and
 - (B) on income classes, including, at a minimum, quintiles of the income distribution, on renters and homeowners, on industry or business classes, as appropriate, and on various types of business organizations;
- (2) may evaluate the tax burden:
 - (A) by other appropriate taxpayer characteristics, such as whether the taxpayer is a farmer, rancher, retired elderly, or resident or nonresident of the state; and
 - (B) by distribution of impact on consumers, labor, capital, and out-of-state persons and entities;
- (3) shall evaluate the effect of each tax on total income by income group; and
- (4) shall:
 - (A) use the broadest measure of economic income for which reliable data is available; and
 - (B) include a statement of the incidence assumptions that were used in making the analysis.

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The exemption report quantifies the value of tax exemptions, as well as the value of tax exclusions and tax discounts.

- Tax exemptions protect items that would be taxable but for specific provisions of Texas law; for example, groceries.
- Tax exclusions are transactions that are not taxed, because they are outside the definition of a taxable sale; for example, real estate transactions.
- Tax discounts are shares of taxes collected that Texas allows taxpayers to retain in exchange for the expenses in collecting a particular tax; for example, the two percent allowance extended for the collection and remittance of motor fuels.

Example of Sales Tax Exemption Estimation (In Millions of Dollars)

	2009	2010	2011	2012	2113	2014
Food for home consumption	1,378.2	1,430.5	1,482.2	1,533.7	1,586.2	1,641.6
Water	248.5	254.9	261.4	268.2	275.2	282.4

Example of Sales Tax Exclusion Estimation (In Millions of Dollars)

	2009	2010	2011	2012	2113	2014
Child day care	206.7	211.5	217.4	224.4	231.5	239.2
Legal services	447.3	458.8	472.5	489.1	504.7	521.7

Example of Sales Tax Discount Estimation (In Millions of Dollars)

	2009	2010	2011	2012	2113	2014
Timely Filer Discount	98.6	99.1	103.3	108.1	112.4	116.9
Prepayment Discount	90.9	91.4	95.2	99.7	103.7	107.8

INITIAL DISTRIBUTION OF TAX -- BY INDUSTRY, FISCAL 2011 (dollar amounts in millions)				INITIAL DISTRIBUTION OF TAX -- BY INDUSTRY TYPE, FISCAL 2011 (dollar amounts in millions)			
Industry	Amount	Percent		Amount	Percent		
Agriculture	\$55.1	0.2%		Corporations	\$ 7,819.5	34.6%	
Mining	640.3	2.8%		Partnerships	1495.2	6.6%	
Utilities & Transportation	1,444.7	6.4%		Sole Proprietors	666.6	3.0%	
Construction	145.9	0.6%					
Manufacturing	959.3	4.2%		Subtotal	\$ 9,981.2	44.2%	
Trade (Wholesale and Retail)	1,135.4	5.0%					
Information	1,073.8	4.8%		Individual Consumers	\$ 12,608.9	55.8%	
Finance, Insurance, and Real Estate	882.7	3.9%					
Other Services	3,644.6	16.1%		TOTAL	\$ 22,590.7	100.0%	
Government	0.0	0.0%					
Individual Consumers	12,608.9	55.8%					
TOTAL	\$22,590.7	100.0%					
FINAL INCIDENCE OF TAX -- BY HOUSEHOLD INCOME QUINTILE, FISCAL 2011				FINAL INCIDENCE OF TAX -- BY HOMEOWNERS/RENTERS, FISCAL 2011 (dollar amounts in millions)			
Quintile	Household Income	Amount (millions)	Percent of Total Tax Paid	Tax as a Percent of Total Income		Amount	Percent
Quintile 1:	less than \$27,088	\$ 1,499.1	6.6%	5.4%			
Quintile 2:	\$27,088 to \$40,112	\$ 2,213.0	9.8%	3.2%	Homeowners	\$ 12,334.5	54.6%
Quintile 3:	\$40,112 to 75,402	\$ 3,089.6	13.6%	2.7%	Renters	5,510.4	24.4%
Quintile 4:	\$75,402 to \$117,899	\$ 4,229.7	18.7%	2.4%			
Quintile 5:	\$117,899 and over	\$ 8,849.1	30.3%	1.7%	Subtotal	\$ 17,846.7	79.0%
Residents		\$ 17,846.7	79.0%		Exported	\$ 4,744.0	21.0%
Exported		\$ 4,744.0	21.0%		TOTAL	\$22,590.7	100.0%
TOTAL		\$ 22,590.7	100.0%		ESTIMATED EQUITY OF TAX, FISCAL 2011		
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Table 2 Incidence Analysis Limited Sales and Use Tax Exemption for Items Taxed by Other Law (Tax Code 151.308)							
INITIAL DISTRIBUTION OF EXEMPTION -- BY INDUSTRY, FISCAL 2011 (dollar amounts in millions)				FINAL INCIDENCE OF EXEMPTION -- BY HOUSEHOLD INCOME QUINTILE FISCAL 2011			
Industry	Amount	Percent	Quintile	Household Income	Amount of Tax Paid (millions)	Percent of Total Income	Tax as a Percent of Total Income
Agriculture	\$ 92.2	1.1%	Quintile 1: less than \$27,088		\$ 604.1	7.0%	2.2%
Mining	53.7	0.6%	Quintile 2: \$27,088 to \$40,112		928.3	10.8%	1.4%
Utilities & Transportation	1,536.5	17.9%	Quintile 3: \$40,112 to 75,402		1,308.2	15.2%	1.1%
Construction	877.5	10.2%	Quintile 4: \$75,402 to \$117,899		1,888.5	19.6%	1.0%
Manufacturing	694.4	8.1%	Quintile 5: \$117,899 and over		2,304.1	26.8%	0.6%
Trade (Wholesale and Retail)	48.0	0.6%	Residents		\$ 6,833.2	79.5%	
Information	1.3	0.0%	Exported		\$ 1,762.0	20.5%	
Finance, Insurance, and Real Estate	62.8	0.7%	Individual Consumers				
Other Services	75.3	0.9%	TOTAL		\$ 8,595.2	100.0%	
Government	0.0	0.0%					
TOTAL	\$ 8,595.2	100.0%					

Totals may not add due to rounding.

PROPOSED/REQUESTED ADDITIONS TO THE REPORT

- Lesser magnitude non-tax revenues, for example state college tuition, toll road fees, etc.

These revenues are collected by governmental entities other than the Texas Comptroller of Public Accounts.)

- Exemption/incidence analysis for smaller areas, for example, cities, counties, toll road authorities, etc.

(Good data do not exist upon which to produce reasonable estimates.)