



LEGISLATIVE PROPOSAL BRIEF

**AN ACT RELATING TO REPEALING CERTAIN STATE SALES, USE, EXCISE, FRANCHISE, SEVERANCE, PRODUCTION, OCCUPATIONS, GROSS RECEIPTS AND INHERITANCE TAXES, TO REPEAL OR LIMIT CERTAIN LOCAL SALES, USE, EXCISE AND AD VALOREM PROPERTY TAXES, TO ENACT A STATEWIDE AND LOCAL VALUE ADDED TAX, AND TO REFORM SCHOOL FINANCE AND ADMINISTRATION
("The Texas Tax Reform Act of 2013")**

HB 3742 --- Filed 03/08/2013 – Tx. State Rep. G. Lavender, District 1

THE ISSUE

Texas' Present State & Local Systems of Taxation & Public Finance:

- Unfairly distribute the tax burden among individuals, groups and industries
- Distort economic incentives, create inefficiencies and suppress growth in Texas jobs and income
- Systematically deprive *ad valorem* property taxpayers of their fundamental due process & property rights
- Persistently fail to meet Texas constitutional standards for provision & financing of public education
- Prevent millions of Texas pupils & family members from residing in truly local, community school districts
- Promote a multiplicity of special purpose districts driven by tax base distribution in preference to local need

THE SOLUTIONS

Texas Replaces its Pyramiding, Distorting & Inefficient State Taxes with a 7% Value Added Tax

- A flat-rate value added tax promotes sound economic decision-making, efficient and transparent collection & administration, and fair distribution of the tax burden in proportion to real economic output
- Virtually *all* other state taxes are repealed
- No business is disadvantaged by the VAT relative to other businesses, but very small businesses are exempt
- Exemptions are created also for governmental, public and not-for-profit organizations
- VAT is embedded, but disclosed, in the price of goods & services
- Individuals not engaged in a trade or business bear *no tax reporting burden*

Local Sales & Use Taxes Are Replaced with Local Value Added Taxes

- The Comptroller collects, apportions and allocates local revenues to local taxing authorities
- Municipalities' 1/2% sales & use tax rate cap is raised to a 1% VAT rate cap
- Counties' tax rate caps remain at 1%, but the higher VAT tax base permits higher tax revenues
- School districts are authorized to levy up to 1/2% VAT within their boundaries for enrichment purposes
- Other local sales taxes are converted to VAT at reduced rates, but total local VAT burden capped at 3%

The *Ad Valorem* Property Tax Is Phased Out

- The annual ritual of reappraisals, hearings & denials ends for most Texans & phases out for most others
- "Basic" education funding replaced with allocations from state general revenues under expanded Foundation School Program that preserves existing formulae for equity and proportionality
- "Enrichment" education funding sourced through local VAT and other revenues
- Freed from their dependence on a large property tax base, oversized, bureaucratic school districts may be transformed into little engines of teaching excellence, community involvement & truly local accountability