

# Creating a Sales Tax Relief (STaR) Fund

## Legislator's Guide to the Issues 2015-16

### Creating a Sales Tax Relief (STaR) Fund



#### The Issue

Texas' robust economy and limited government philosophy have led to strong job creation and vigorous investment contributing to substantial increases in tax revenue. Assuming this trend continues, there will potentially be a sizable state budget surplus at the end of FY 2015.

Instead of spending excess dollars, the Texas Legislature should create the Sales Tax Relief (STaR) Fund, a mechanism that legislators could direct surplus revenue to, either directly or indirectly, for the purpose of temporarily reducing the state sales tax rate and provide a highly-visible tax cut for all Texans.

After the STaR Fund is created, it would be funded in two ways:

1) Legislators shifting dollars from a surplus or saved dollars from less spending on state programs; and 2) Funds in excess of the Economic Stabilization Fund's cap would flow directly into the STaR Fund rather than back into General Revenue (GR).

The statute creating the STaR Fund would authorize the Texas Comptroller to temporarily lower the sales tax rate for a certain period based on the amount in the STaR Fund. To calculate how much to reduce the sales tax rate over a chosen period, the Comptroller would use the previous year's sales tax revenue. After the desired period, the sales tax rate would automatically revert to its original level.

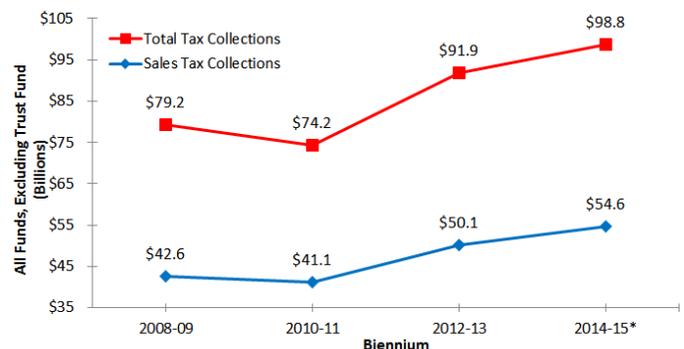
Since the 2008-09 biennium, more Texans have used their hard-earned dollars to purchase goods and services contributing to a 28% increase in sales tax revenue. With sales tax revenue representing an estimated 55% of total tax collections in FY 2014-15, the increased sales tax revenue contributed to a 25% rise in total tax revenue over this period (see figure above).

Another growing source of state revenue is severance tax collections from the oil and gas sector. A portion of this revenue is transferred into the state's Economic Stabilization Fund (ESF), subject to a cap set in the Texas Constitution. If the cap is reached, these excess dollars flow into GR and are typically spent.

For the 2014-15 biennium, the Texas Comptroller calculates an ESF cap of \$14.4 billion. Though the balance will likely fall below the cap at roughly \$8.1 billion by the end of FY 2015 from water projects and highway diversions, the meteoric rise in oil production across the state means there is a good probability this balance will be much higher, raising the likelihood it will reach the cap in coming years.

With extra dollars likely in state coffers next session, this presents legislators with a major challenge in restraining size and scope of government. A better choice than spending these excess funds is restraining government spending and providing sales tax relief. The difficulty for legislators to attempt to do this starts in the appropriations process.

**Rising Tax Collections Support Creation of the Sales Tax Relief Fund**



Source: Texas Comptroller, \*indicates estimate

A way to reduce spending levels through the appropriations process is to include taxpayers as one of the funding constituents. With a booming economy and energy sector leaving more revenue in the state's coffers, a priority must be to restrain the growth of government spending to support a robust economy and lower the sales tax rate through the STaR Fund.

### The Facts

- Between the 2008-09 and 2014-15 biennia, economic growth and job creation contributed to a 28% increase in sales tax revenue and a 25% rise in total tax revenue. Initial estimates in the Legislative Budget Board's *Fiscal Size-Up 2014-15* show a potential \$2.6 billion surplus for the 2014-15 biennium.
- The Texas Comptroller projects that the ESF will be roughly \$8.1 billion by the end of fiscal 2015. Rising oil production across the state means it is likely the ESF balance will reach its cap in coming years.
- By including taxpayers as a funding constituent, more revenue from a booming economy and energy sector makes spending restraint and tax relief high priorities.

### Recommendations

- Legislators should create the STaR Fund to provide a mechanism to temporarily reduce the state sales tax rate for all Texans.
- By shifting dollars that were earmarked for spending into the STaR Fund, legislators can reduce the bottom line of the budget and let taxpayers keep more of their money.

### Resources

*Protecting Texas Taxpayers: the Sales Tax Relief Fund* by Talmadge Heflin and Vance Ginn, Ph.D., Texas Public Policy Foundation (Apr. 2014).

*Fiscal Size-Up 2014-15*, Legislative Budget Board (Feb. 2014).

*Biennial Revenue Estimate 2014-15*, Texas Comptroller of Public Accounts (Jan. 2013).

*Economic Stabilization Fund*, Legislative Budget Board (Apr. 2013).

*The 2014-15 Certification Revenue Estimate*, Texas Comptroller of Public Accounts (Dec. 2013).

