

NEWS



CONTACT: Dr. Eugene Baker, 254.751.9595

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510 N. Valley Mills Drive, Suite 300
Waco, Texas 76710-6076
(254) 751-9595
Fax (254) 751-7855
Email: info@perrymangroup.com
Internet: www.perrymangroup.com

Analysis by The Perryman Group Finds Substantial Benefits from Sharp Tax Proposal

An analysis by The Perryman Group (TPG), an economic research firm based in Waco, reveals that a proposed tax reform measure could bring substantial benefits to the Texas economy. The plan put forth by the Texas Tax Reform Commission, chaired by former Comptroller of Public Accounts John Sharp, represents a substantial overhaul and modernization of the tax system in Texas. The plan would reduce school property taxes significantly, eliminate the current corporate franchise tax, and enact an “alternative margins tax” designed to offer a fair and equitable distribution of the business tax burden (as well as a few other items).

According to Dr. M. Ray Perryman, the President of the firm which conducted the analysis, “In addition to its role in helping to meet court-imposed mandates regarding the financing of public education, this proposal has considerable merit. By reducing property taxes and eliminating the current capital stock component of the franchise tax, it removes much of the penalty presently imposed on large, capital-intensive enterprises. As a result, it will serve as a stimulus to investment and economic development. Moreover, it spreads the burden of taxation more equitably across various sectors of the state’s business complex, thus making the system more responsive to future expansion in overall state performance and fiscal needs. The reductions in property taxes also serve as a catalyst to future real estate development. In essence, this measure, if enacted, would represent a notable milestone in moving the Texas tax structure away from an ‘industrial revolution’ model and more toward one suited for an information and technology society.”

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Using the Texas Multi-Regional Impact Assessment System, The Perryman Group examined the potential effects of this proposed change in the tax structure. This model was developed and is maintained by TPG and has been used in hundreds of applications over the past twenty-five years, including numerous previous tax-related studies.

The increased efficiency in the allocation of the tax burden alone results in gains to the economy (in constant 2006 dollars) of an estimated

- ✓ \$2.179 billion in annual Total Expenditures;
- ✓ \$0.794 billion in annual Gross State Product;
- ✓ \$0.216 billion in annual Personal Income;
- ✓ \$0.867 billion in annual Retail Sales; and
- ✓ 11,265 in Permanent Jobs.

When considered on a dynamic basis, which accounts for the real estate and economic development stimulus, the impact at maturity increases to

- ✓ \$10.971 billion in annual Total Expenditures;
- ✓ \$4.158 billion in annual Gross State Product;
- ✓ \$2.168 billion in annual Personal Income;
- ✓ \$1.640 billion in annual Retail Sales; and
- ✓ 48,755 in Permanent Jobs.

Additionally, these increases in business activity provide a yearly increment to State revenues of about \$301.2 million, and virtually all major sectors experience net increases in output and employment. It also stimulates more than 2,000 new housing starts per year and almost 3,000 sales of existing homes.

Perryman further noted, "The process of providing adequate fiscal revenues to meet the needs of a diverse and expanding economy are quite complex, and the best approaches are often in the eye of the beholder. Nonetheless, the proposal offered by the Texas Tax Reform Commission represents a positive improvement over the current structure with regard to numerous objective criteria such as equity, efficiency, promotion of investment and development, and responsiveness to an evolving business complex. Thus, its enactment is likely to bring substantial benefits across a broad spectrum, setting the stage for a more competitive state economy for decades to come."