

TEXAS PUBLIC POLICY FOUNDATION

2019-20  
**LEGISLATOR'S  
GUIDE**  
to the issues



**TEXAS PUBLIC POLICY**  
FOUNDATION

Copyright ©2018 by the Texas Public Policy Foundation

Permission to reprint in whole or in part is hereby granted, provided the Texas Public Policy Foundation and the author are properly cited.

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute.

The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

TEXAS PUBLIC POLICY FOUNDATION  
901 Congress Ave., Austin, TX 78701  
(512) 472-2700 Phone (512) 472-2728 Fax  
[www.TexasPolicy.com](http://www.TexasPolicy.com)

# Sales Tax Reduction Fund

## The Issue

The initially appropriated 2018-19 state budget of \$217 billion is up 74% since the 2004-05 budget. However, the key measure of estimated compounded growth of population plus inflation is up only 63% in that period. Had the budget followed this key measure since the 2004-05 budget, Texans would be paying \$15 billion less in taxes and achieving greater prosperity.

Fortunately, the 84th and 85th Texas legislatures passed budgets that increase by less than population growth plus inflation, but there is more work to do. One way to continue correcting past budget excesses is to cut ineffective budget items.

While legislators attempt to reduce spending on specific programs by offering budget amendments in the appropriations process, this normally does not lead to lower overall spending. Such amendments simply set aside the money cut from one program and make it available for legislators to appropriate elsewhere.

To correct this problem of an 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 period of reducing a state tax such that the fund would be depleted. After the determined period, the tax rate could automatically revert to its original level or legislators could permanently fund a lower tax rate.

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 creating the STaR Fund, the Legislature could fund it by (1) appropriating dollars that are from a budget surplus or saved dollars from less spending on state programs, and (2) directly allocating funds in excess of the Economic Stabilization Fund's (ESF) cap rather than into general revenue. For the 2018-19 biennium, the ESF cap is \$16.9 billion. Although the expected ESF balance of \$11.9 billion will be below the cap at the end of fiscal 2019, it could soon reach the cap.

Every taxpayer dollar spent should be scrutinized such that it only funds the preservation of liberty. When there are surplus dollars, those funds should be returned to taxpayers and not caught up 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 through a vehicle like the STaR Fund such that the good tax climate that has resulted in long-lived economic prosperity in Texas will continue.

### The Facts

- The House's current appropriations process does not allow for funds cut from programs to reduce the budget's bottom line. Instead, these funds are available to be appropriated to other programs.
- The Texas Comptroller projects that the ESF will be roughly \$11.9 billion by the end of FY2019, reaching toward the cap of \$16.9 billion, and could soon reach it.
- 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 2019 to provide a means for reducing the bottom line of the budget while returning those dollars to the taxpayers by reducing taxes.
- By appropriating dollars that were earmarked for budget growth directly into the STaR Fund along with excess dollars in the ESF to provide tax relief, legislators can restrain the growth of government.

---

### Resources

[\*Budget Cutting Through the Sales Tax Reduction \(STaR\) Fund\*](#) by Talmadge Heflin and Vance Ginn, Texas Public Policy Foundation (Feb. 2017).

[\*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).



## Experts

**Kara Belew**, *Senior Education Policy Advisor, Center for Innovation in Education*  
kbelew@texaspolicy.com AREAS OF EXPERTISE: State Budget, Taxes, Public Education Finance and Policy, Public Education Accountability

**Derek Cohen, Ph.D.**, *Director, Center for Effective Justice and Right on Crime*  
dcohen@texaspolicy.com AREAS OF EXPERTISE: Juvenile Justice Reform, Victims' Rights, Overcriminalization, Constitutional Limitations on Corrections

**The Hon. Chuck DeVore**, *VP of National Initiatives; Senior Fellow for Fiscal Policy*  
cdevore@texaspolicy.com AREAS OF EXPERTISE: Tax and Fiscal Policy, Elections, Foreign Affairs, Military Affairs, Energy and Environmental Policy

**Vance Ginn, Ph.D.**, *Director, Center for Economic Prosperity; Senior Economist*  
vginn@texaspolicy.com AREAS OF EXPERTISE: State Budget and Tax Reform, National and State Labor Market Trends, Tax and Expenditure Limits, Energy Markets and Policy

**Michael Haugen**, *Policy Analyst, Center for Effective Justice and Right on Crime*  
mhaugen@texaspolicy.com AREAS OF EXPERTISE: Civil Forfeiture, Overcriminalization, Substance Abuse Policy

**The Hon. Talmadge Heflin**, *Director, Center for Fiscal Policy*  
theflin@texaspolicy.com AREAS OF EXPERTISE: State Budget and Taxation, Economic Stabilization Fund, Local Government Spending, Pension Reform, Federal Funds

**Haley Holik**, *Attorney, Center for Effective Justice and Right on Crime*  
hholik@texaspolicy.com AREAS OF EXPERTISE: Juvenile Justice, Grand Jury Reform, Constitutional Limitations on Search and Seizure, Overcriminalization

**Marc Levin, Esq.**, *VP of Criminal Justice and Right on Crime*  
mlevin@texaspolicy.com AREAS OF EXPERTISE: Adult Corrections, Juvenile Justice, Overcriminalization, Victim Empowerment and Restitution, Law Enforcement, School Discipline

**Thomas Lindsay, Ph.D.**, *Director, Center for Innovation in Education*  
tlindsay@texaspolicy.com AREAS OF EXPERTISE: Higher Education, Culture Wars (Political correctness, cultural decline, etc.), America's Founding Principles, Online Learning, Federalism, Tenth Amendment, Interstate Compacts

**Brandon J. Logan, Ph. D.**, *Director, Center for Families & Children*  
blogan@texaspolicy.com AREAS OF EXPERTISE: Child Welfare Policy, Foster Care, Adoption, Family Law, Parental Rights

**Bryan Mathew**, *Policy Analyst, Center for Local Governance*  
bmathew@texaspolicy.com AREAS OF EXPERTISE: Local Economic Regulation, Local Economic Development, Municipal Annexation, Housing Affordability, Property Rights, Special Districts

**Stephanie Matthews**, *VP of Public Affairs*

smatthews@texaspolicy.com AREAS OF EXPERTISE: Workforce Development, Charter Schools, School Choice, Virtual Learning

**Jennifer Minjarez**, *Policy Analyst, Center for Health Care Policy*

jminjarez@texaspolicy.com AREAS OF EXPERTISE: Medicaid Reform, Mid-Level Providers, Medical and Dental Licensure Reform

**Bill Peacock**, *VP of Research*

bpeacock@texaspolicy.com AREAS OF EXPERTISE: Electricity Markets and Renewable Energy, Insurance, Technology and Telecommunications, Tort Reform, Property Rights, Economic Development, Consumer Issues

**Randy Petersen**, *Senior Researcher, Center for Effective Justice and Right on Crime*

rpetersen@texaspolicy.com AREAS OF EXPERTISE: Policing Policy, Diversion Programs, Civil Asset Forfeiture

**James Quintero**, *Director, Center for Local Governance*

jquintero@texaspolicy.com AREAS OF EXPERTISE: Budgets, State and Local Spending, Debt, Taxes, Transparency, Pensions

**Kevin D. Roberts, Ph.D.**, *Executive Director*

kroberts@texaspolicy.com AREAS OF EXPERTISE: K-12 Education Growth, Increasing Public School Efficiency, Education Choice, Higher Education, Tenth Amendment

**Emily Sass**, *Policy Analyst, Center for Innovation in Education*

esass@texaspolicy.com AREAS OF EXPERTISE: K-12 Education, Education Choice, School Finance, Civic Education, Charter Schools

**Deane Waldman, Ph.D.**, *Director, Center for Health Care Policy*

dwaldman@texaspolicy.com AREAS OF EXPERTISE: Health Care, Medicaid, Telemedicine, Scope of Practice, Regulatory Issues

**The Hon. Kathleen Hartnett White**, *Distinguished Senior Fellow-in-Residence; Director, Center for Energy & the Environment*

khwhite@texaspolicy.com AREAS OF EXPERTISE: EPA Regulation, Energy and Environmental Policy, Free Market Environmental Policies, Endangered Species Act, Water Rights

The Texas Public Policy Foundation is a 501(c)3 non-profit,  
non-partisan research institute.

The Foundation's mission is to promote and defend liberty,  
personal responsibility, and free enterprise in Texas and  
the nation by educating and affecting policymakers and  
the Texas public policy debate with academically  
sound research and outreach.

Funded by thousands of individuals, foundations, and  
corporations, the Foundation does not accept government  
funds or contributions to influence the  
outcomes of its research.

The public is demanding a different direction for their  
government, and the Texas Public Policy Foundation is  
providing the ideas that enable policymakers  
to chart that new course.



901 Congress Ave., Austin, Texas 78701 | 512.472.2700 phone 512.472.2728 fax  
[www.TexasPolicy.com](http://www.TexasPolicy.com)