

BILL ANALYSIS

Senate Research Center
78R301 RVH-D

S.C.R. 1
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DIGEST

The Tax Reform Act of 1986 eliminated the deductibility of state and local sales taxes paid by federal income tax return filers while retaining the deductibility of state and local income taxes. Although this tax legislation was intended to simplify the United States (U.S.) federal income tax, it created a disparity between nine states, including Texas, that do not levy a personal income tax and the remaining 41 states that do. Citizens in the 41 states that levy income tax are able to reduce their federal income tax liability by continuing to deduct those income taxes, whereas taxpayers in states such as Texas no longer have a corresponding benefit; as a result, taxpayers in Texas and several other states pay a higher percentage of federal taxes than the majority of American taxpayers. In addition to adversely affecting individual taxpayers in Texas, the Tax Reform Act of 1986 adversely affects states such as Texas whose tax structure is based on sales tax rather than income tax. In March 2002, the Texas Comptroller of Public Accounts (comptroller) published a report estimating that the inability to deduct state and local sales taxes could cost Texans more than \$700 million for the 2002 tax year and that not restoring the federal deductions for state and local sales taxes could cost the State of Texas more than 16,000 jobs. The comptroller's report additionally indicates that reinstating the deductibility of state and local sales taxes on federal income tax returns could yield substantial benefits for both Texas families and the Texas economy. For example, a family of four with an income of \$60,000 could gain an additional federal income tax deduction of \$1,015, and a single mother with one child and an income of \$35,000 could deduct an additional \$641. The comptroller further estimates that the net tax savings of more than \$700 million that would remain in Texas could generate \$590 million in new investments in the state as well as an \$874 million increase in gross state product for the year 2003. Federal legislation to reinstate the deductibility of state and local sales taxes is presently before the U.S. Congress; Texans and taxpayers of other states that finance their budgets without an income tax deserve to benefit from this legislation that would grant them federal income tax deductions comparable to those enjoyed by the majority of U.S. taxpayers.

PURPOSE

As proposed, S.C.R. 1 submits the following resolutions:

Provides that the 78th Legislature of the State of Texas respectfully request that the Congress of the United States restore the federal income tax deductibility of state and local sales taxes that existed before 1986. Provides that the Texas secretary of state forward official copies of this resolution to the president of the United States, the speaker of the house of representatives, the president of the senate of the United States Congress, and to certain other parties with the request that this resolution be officially entered into the Congressional Record as a memorial to the Congress of the United States of America.