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Does Texas need giant tax breaks to attract companies?

Texas ranks 11th for its business tax climate, so some argue that the money could be put to better use.



Comerica Bank tower (left center) and AT&T's headquarters are among the major corporate headquarters in downtown Dallas. Despite having a very competitive business tax structure, Texas is well-known for doling out tax abatements and other incentives to attract jobs and investment. (Smiley N. Pool/Staff Photographer)

By Mitchell Schnurman - Jun 16, 2021

In recruiting businesses, local officials like to say they need every tool in the toolbox. So what happens when they lose the hammer?

Last month, Texas lawmakers chose to not extend the Chapter 313 incentives program, which has saved companies \$10.8 billion in school taxes over the past two decades.

While it's been utilized for some enormous projects, including Tesla's gigafactory near Austin and Texas Instruments' chip-making plant in Richardson, critics have documented dozens of abuses.

The most frequent criticism is that tax breaks went to projects that were coming here anyway, such as natural gas processing plants and wind turbines. The Chapter 313 program is scheduled to expire at the end of 2022, and some believe it will make Texas less competitive, especially for capital-intensive projects.

“Once you narrow down to a handful of sites, you’re really digging into costs,” said Kelley Rendziperis, principal and leader of the economic incentive division of Site Selection Group, a Dallas-based location adviser. “The real and personal property tax rate is fairly high here, especially compared to neighboring states. It’s going to be very difficult for Texas to not come out more expensive on large investments because of its heavy tax burden.”

She was referring specifically to property taxes, which are often dominated by school taxes in Texas. Those costs are higher than the nationwide average, which was part of the rationale in creating the 313 program in 2001.

But Texas is not a high-tax state — nowhere near it.

In large part, that’s because Texas has no state income tax. Most other levies appear to be fairly competitive, too.

Texas ranked 11th-best overall for business tax climate, according to an index compiled by the Tax Foundation, a nonprofit that’s been assessing tax policy for over 80 years. That’s one spot better than Texas’ 2020 rank, and Texas was No. 12 for much of the past decade.

“Texas is a very competitive state,” said Janelle Cammenga, policy analyst with the Tax Foundation and co-author of the latest report on state business taxes. “Texas has been dedicated to being a low-tax state for a long time, and companies rely on that. It makes a difference for them.”

The 2021 State Business Tax Climate Index measured 124 variables in five major tax categories, weighting the scores by the most important factors for business and ranking them among the 50 states.

Texas scored best on individual income taxes, not surprisingly. For property tax burden, Texas ranked 36th — worse than average but hardly beyond the pale. It ranked 35th on sales tax.

The outlier was the state’s margin tax, a modified gross receipts tax with a low rate and wide base. It taxes inputs, not just profits, and the Tax Foundation considers it more damaging than a corporate income tax. That put Texas at No. 47 on corporate taxes.

“Rather than offsetting that through incentives, the state should just aim to lessen the burden of the uncompetitive tax,” Cammenga said.

She has the same view on property taxes. If they're so high that Texas has to create a special tax break, the state should fix the tax policy, not the incentives.

When companies search for a site, property taxes are a big deal, Rendziperis said, because they're often among the highest ongoing costs.

"You can't ever look at an overall ranking; you've got to dig into the details," she said. "From being in the industry 20 years, I can tell you that incentives are definitely important to offset the costs of any move. These companies have to answer to shareholders."

She expects rival states to criticize Texas for ending the 313 program and to look for a competitive advantage. At a recent conference of site selectors in Orlando, Fla., many were surprised by Texas' move, said Matt Garcia, senior vice president of public policy for the Dallas Regional Chamber.

It's too early to tell whether Texas will lose deals because of it, but he expects other states to be emboldened, especially Tennessee, Mississippi and Arkansas.

"This brings them back to the table for some of these big manufacturing projects," Garcia said. "Those three states were all very happy to see that Texas had not reauthorized 313."

John Boyd Jr., a longtime location consultant, takes a counter view. Many believe Texas has been giving away too much in incentives, he said, so dropping 313 won't be an obstacle for his clients. The program brought so much scrutiny and criticism that companies worried about a backlash.

They're already attracted by Texas' strengths, including "low business costs, low taxes, a pro-business regulatory environment" and more, said Boyd, principal of the Boyd Co., which started in 1975 in Princeton, N.J.

As for the tax burden, many clients are more worried about Texas handling its strong growth, he said.

"This is a way to redirect revenue into things like energy grids," Boyd said, a not-so-subtle reference to the February storm that shut down power for days in much of Texas. "There's an opportunity for Texas to position this as a way to protect and reinvest in infrastructure, schools and public safety."

Executives must pay attention to environmental and social issues today — and closely weigh the risk of any move.

"Everybody talks about the cost of projects and other benefits, but risk has to be looked at," said Gene DePrez, a site selection expert at Global Innovation Partners in the New York area. "You can't locate an operation and take on the risk of not having electricity."

DePrez has worked on over 800 corporate projects, he said, and the vast majority didn't involve incentives. They sometimes come into play at the end of the process, but he believes there's a better way to make an impression.

"How quickly can the community respond?" DePrez said. "Are we going to have a lot of permitting problems? Is it going to take forever to get things done?"