



# House plan <sup>180</sup> increases sales taxes

Daily Press  
Taylor, TX  
Circ. 4658  
From Page:  
1  
4/28/2004  
91126

A House plan proposed this week would offset a cut in school property tax rates by increasing the state sales tax rate, adding a payroll tax and various "sin" taxes to finance an education funding shortfall.

State Rep. Talmadge Heflin, who chairs the appropriations committee and is a member of the public school finance select committee, proposed a plan to compensate for the revenue loss if property tax rates are lowered statewide. The details of the plan, as reported in the Austin American-Statesman Wednesday, include eliminating the franchise tax, adding a payroll tax of 1 percent of a company's wage base, legalizing slot machines and increasing the cigarette tax.

The state's sales tax would increase from 6.25 to 6.5 percent under Heflin's proposal and the base would be broadened to include currently non-exempt items and services.

The multifaceted approach to solving the financial crisis is a good one, according to economist Milton Holloway, who is the principal of Resource Economics, Inc. in Austin.

Holloway completed a series of

analyses for the Texas Public Policy Foundation that looked at factors similar to those proposed in the House tax plan.

"Generally I think the House plan that is being discussed is probably a pretty good alternative," Holloway said. "It's not as large of a change as some of the other plans that are being looked at. It adds some so-called sin taxes that are probably not a good base for funding schools, but nonetheless may be good public policy."

The proposed payroll tax is more fair, Holloway said, than the franchise tax currently in place because it spreads the burden to a larger portion of the business sector.

"Most people conclude that the franchise tax is almost like a corporate income tax," Holloway said. "It's not a function of income, but a function of their capital base."

How much profit a company nets is not a factor in how much it will pay in franchise taxes and the tax does not apply to partnerships, only corpora-

■ TAXES, page 12



## ■ Taxes, page 1

tions, he said.

Relieving the burden on property owners is a must, Holloway said.

Texans pay high property taxes relative to residents of other states, Holloway said.

"Texas is not the absolutely highest one in the country but it's in the upper end of the range," Holloway said. "As a general matter,

property taxes are too high and the property tax is a bad tax from an economic point of view .... It's a tax that doesn't make much economic sense."

While completing his analyses he looked at even higher sales tax rates and a broader base of items to be taxed. The House plan is more conservative, he said.

"I think they're driven in that direction because of political realities," Holloway said. "It's fair to say it's both a combination of political realities and the expected economic effects of the different approaches combined."

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