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State may not find way out of income tax

AUSTIN — No two issues in state government can provoke as much passion as public education and taxes.

A collision, then, seems inevitable as state leaders struggle to change the way Texas pays for public education.

Texas relies primarily on two taxes: property and sales. Property taxes pay for most of the state's \$30-billion-a-year public education system.

Lawmakers want to lower school property taxes by 30 percent to 50 percent, which means a huge shift elsewhere to replace up to \$8 billion a year in revenue. Some fear that the shift will land on increased sales taxes and a new payroll tax.

"A payroll tax is a terribly regressive tax," says **Scott McCown**, head of the Center for Public Policy Priorities, an Austin-based think tank that tracks issues affecting lower-income families. A payroll tax

could also encourage employers to pay low wages.

"It's an income tax on working folks without any of the advantages," says McCown, who was the judge in the historic Edgewood lawsuit more than a decade ago that produced greater equity for the state's property-poor school districts.

Texas is far from a big-spending state. It ranks last in spending and 49th in per capita tax burden.

"The fact that everybody else is spending a whole lot more ... than we do, I don't know that is a particular virtue," economist **Byron Schlomach** of the conservative Texas Public Policy Foundation told the Senate Finance Committee this week.

Schlomach told **Sen. Eliot Shapleigh**, D-El Paso, that he thinks Texas spends too much as it is. Some senators contend that Texas' dead-last spending ranking gets skewed because the cost of living is less here.

But, McCown says, "you just can't get Texas into a high tax, high service state."

Texans should understand, he says, that the state has the fastest-growing children's population and the second-largest population of children.

"And it is very expensive to meet their needs, and we do need a revenue stream to do it," he said.

Republicans tend to favor consumption and sales taxes, which Democrats complain unfairly burden lower-income families. Schlomach told Shapleigh he supports slapping a

sales tax on food and medicine.

"From an economic perspective, there isn't any reason to exempt food or medicine or medical services," he said. "Any time you begin exempting, you create distortions in the economy. You artificially distort the cost of goods and services."

A sales tax is somewhat proportional because the wealthy buy more expensive clothing and cars, adds **Michael Quinn Sullivan**, vice president of the Texas Public Policy Foundation.

Some see a personal income tax as the state's only real long-term solution. Prominent Dallas Republican **Mike Boone**, representing 75 Dallas area CEOs and the 3,800-member Dallas Chamber of Commerce, told lawmakers he's already reached that conclusion.

Business leaders need to talk in public about what they say in private about the income tax, **Sen. John Whitmire**, D-Houston, told them, "because some little ol' worker in El Paso or East Houston don't have the access that you gentlemen have."

Houston lawyer **Glen Rosenbaum**, representing 11 of the state's largest law firms, called the income tax inevitable. But don't count on it this year.

Voters would have to approve an income tax. One-third of the revenue would go to public schools and the rest would be used to lower property taxes — about 90 percent for most people.

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