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Sales tax increase advances in House

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AUSTIN - The state sales tax rate would rise by nearly a penny and Texans would pay more for cigarettes, car washes, boats, billboard advertising and even bottled water under a \$5.4 billion bill passed by a House committee Wednesday.

Businesses, including noncorporate entities, would also face a new payroll tax -- a wholesale replacement of the loophole-ridden franchise tax. In exchange for the new levies, business and residential property owners would see their school taxes drop by about a third, officials said.

The bill "only exists because we're having a 50-cent decrease in property taxes," said Rep. Jim Keffer, R-Eastland, chairman of the House Ways and Means Committee, referring to school tax rates. "The focus needs to remain that this is a property-tax-reduction bill."

Still, Keffer acknowledged that any complicated restructuring of the tax system like that contemplated in House Bill 3 would create "winners and losers."

"It's a change, and changes are tough," he said. "We're not trying to be onerous on any particular group or business or industry or whatever."

The bill passed 6-2, with one member abstaining. Keffer wouldn't allow the committee to vote on an amendment from Rep. Vilma Luna, D-Corpus Christi, that would provide an additional \$1.4 billion annually while reducing property taxes by a lesser amount. Luna was one of the two members -- both Democrats -- to vote against the bill.

The measure still has a long road ahead. To become law, it must be approved on the House floor and by the Senate and be signed by Republican Gov. Rick Perry. In the past, Perry has called the payroll tax an unacceptable "job killer" but was noncommittal Wednesday night.

"I have every reason to believe from past history that a bill that passes out of one body very rarely is in the final form, so there's a lot of massaging, a lot of debating left," he said.

Critics testifying before Keffer's committee hit the bill from the left and the right. Some said the measure would heavily favor the wealthy while increasing the burden on those least able to afford it. Others said it would cause their tax bills to skyrocket and discourage job growth.

Dick Lavine, an economist for the Center for Public Policy Priorities, an advocacy group for low-income Texans, said the overwhelming majority of Texans would see their tax burden rise -- all "for the sake of large capital-intensive businesses and wealthy people with large homes."

"Most Texans will lose with this bill," Lavine said. He said the new 7.2 percent rate would give Texas the highest state sales tax in the nation, but Keffer said that surrounding states, except for New Mexico, would still have higher combined local and state sales taxes.

House Speaker Tom Craddick, R-Midland, acknowledged that capital-intensive businesses -- those with expensive equipment -- stand to gain under the bill. But he said that's because they are paying so much of the tax tab now, in the form of high property taxes and, for those organized as corporations, the franchise tax.

By comparison, professionals like doctors and lawyers generally have a lower property tax burden and often don't pay the franchise tax because they typically organize as tax-exempt partnerships.

"Our tax system today penalizes capital-intensive industries," Craddick told reporters. "I think they'll come out better in that everybody will be paying something, so they'll be sharing the responsibility."

The new 1.1 percent payroll tax, a deductible business expense, would apply to employee compensation of up to \$80,000. So employers would pay for 1.1 percent of each employee's compensation package, with a maximum liability of \$880 per employee per year.

Henry Benning, a small-business owner from El Paso and an executive with the National Federation of Independent Business, said the legislation would increase his tax bill by nearly 70 percent.

"This bill is not good for Texas," said Benning, who operates a construction contracting firm. "I cannot take any more taxes. ... This is onerous on the backs of small business."

Byron Schlomach, chief economist of the Texas Public Policy Foundation, which advocates spending cuts and limited government, said the payroll tax -- House leaders have begun calling it the "reformed franchise tax" -- would limit economic growth.

"It's a tax on jobs. It's a tax on work. It's a tax on thrift and a tax on personal independence," he said. "Replacing the old franchise tax is a good idea -- but this is replacing it with something that's arguably worse."

There are a variety of sales tax changes apart from the higher rate. Previously exempt items, such as billboard advertising and bottled water, would be subject to the sales tax. And both the boat and motor vehicle sales taxes would rise by more than a penny to 7.35 percent.

The legislation also includes the so-called liar's tax, under which used cars must be appraised at the standard Blue Book value for tax purposes. The change is designed to prevent the underreporting of the sales price of used cars for tax purposes.

Luna, the Corpus Christi Democrat, questioned whether that change would unfairly penalize those who buy used cars with serious mechanical problems. "What if the car doesn't have an engine?" she asked.

And Rep. Al Edwards, D-Houston, who abstained from voting on the bill, wondered if his fellow committee members could understand how poor Texans who can barely make ends meet would suffer under a higher cigarette tax.

"A good smoke at the end of the evening would probably do them a whole lot of good," he said.

House tax plan

The revenue plan approved by the House Ways and Means Committee is designed to raise \$5.4 billion and lower property taxes by the same amount.

SALES TAXES: Raise state rate to 7.2 percent, up nearly a penny from 6.25 percent. Levy tax for the first time on billboard advertising, bottled water, car washes and car-repair services.

CARS AND BOATS: Raise state sales tax rate to 7.35 percent, up more than a penny from 6.25 percent.

BUSINESS TAXES: Replace franchise tax with 1.1 percent payroll tax applied to employee compensation. Maximum liability would be \$880 per employee per year. All business entities, including partnerships, would be subject to the tax.

TOBACCO TAXES: Cigarette tax up by \$1, rising to \$1.41 per pack; cigar tax up 244 percent; smokeless-tobacco tax rises to 40 percent, up from 35.2 percent of list price.

SCHOOL PROPERTY TAXES: Cut by one-third on average, or 50 cents per \$100 valuation; dedicate 15 percent of future surplus revenue (not constitutionally dedicated) to additional property tax relief.

SOURCES: House Bill 3; Rep. Jim Keffer, R-Eastland; House Ways and Means Committee

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