

## Tax-swap bills aid state's wealthiest

**Only top 10% get relief in Senate plan, legislative analysts say**

10:36 PM CDT on Monday, May 9, 2005

By **ROBERT T. GARRETT** / The Dallas Morning News

AUSTIN – The Senate's version of a huge tax-swap bill would protect the poorest Texans more than the House's, but it would still raise the tax burden on all but the wealthiest households, according to a nonpartisan legislative analysis.

Only the richest 840,000 households – those with annual incomes of more than \$140,000 – would receive a net tax cut under the Senate plan, which the full chamber is expected to debate today.

According to the Legislative Budget Board, an agency that helps lawmakers track the budget, the state's other 7.5 million households – 90 percent – would see their tax burden rise. Increased sales taxes, higher prices and lower wages and profits from a broadened business tax would exceed what most save in property tax cuts.

"Naturally, most people would lose," said Dick Lavine, senior fiscal analyst at the Center for Public Policy Priorities, which advocates for low-income Texans. "We're raising consumption taxes ... in order to cut the school property tax."

Neither plan is likely to become law without changes. Once the Senate passes its bill this week, the two chambers will begin to negotiate a compromise, though many lawmakers and lobbyists are skeptical any deal can be reached.

But while the exact figures outlined by the budget board are unlikely to be final, any compromise would contain similar elements – a broad school property-tax cut, an increase in the state sales tax, and a new franchise tax that more businesses pay.

The Senate's plan would cut property taxes by \$4.3 billion in 2007 and make up the lost revenue with higher taxes on businesses, consumers, smokers and drinkers.

Sen. Eliot Shapleigh of El Paso, one of two Democrats who voted against the bill in the Senate Finance Committee, said it "creates an historic Texas tax shift where sales, auto and payroll taxes now form the base of public school taxes – thus shifting billions in taxes in the next decade to middle- and low-income Texas families."

Under the bill, he said, "Texas will have the most regressive tax code in America." A regressive tax is one under which the poor pay a larger percentage of income than the rich.

Sen. Todd Staples, R-Palestine, who voted for the measure, said cutting property taxes for homeowners would help increase the state's relatively low rate of home ownership and cutting them for capital-intensive industries would create new jobs.

"Close the tax loopholes," he said. "End the high-priced attorneys' tax avoidance schemes and create jobs. Did I mention create jobs?"

Byron Schlomach, chief economist at the Texas Public Policy Foundation, which supports limited government, said

"there's not that much difference" in how the sales tax and property tax affect lower-income groups.

'Tax incidence'

The budget board's analysis uses broad income categories and measures "tax incidence" – how much more or less families will be affected when all taxes trickle down to their final level. It attempts to gauge, for instance, the cost to consumers once businesses factor tax changes into their wage and price decisions.

The impact on specific individuals depends on several factors, such as whether they own or rent their homes, how much they spend and whether they smoke or, in the case of the Senate bill, drink alcohol. It is considered, however, the most definitive and impartial economic analysis of a state tax bill.

The budget board's analysis shows households making more than \$140,000 would receive a net tax reduction of 1.5 percent in 2007 under the Senate bill.

Under that plan, those making between \$100,000 and \$140,000 essentially would break even – they'd see a net increase of 0.07 percent, the study found. Also close to breaking even would be households making \$13,415 or less. They would pay 0.4 percent more in taxes. But under the House plan, those poorest Texans would pay even more, about a 3 percent net increase.

Mr. Lavine praised Lt. Gov. David Dewhurst and Senate leaders for attaching a provision that would help Lone Star Card-holders, who get food stamps. Under the Senate bill, those 800,000 households would receive a credit of about \$10 a month as a cushion against higher sales tax.

"That's very important," Mr. Lavine said. But for those making \$20,000 or more, he said, the Senate plan "goes straight downhill from there."

Mr. Schlomach disagreed.

"Over a large part of the income range, it has a fairly equitable overall impact," he said of the Senate plan.

Households making from \$13,000 to \$65,000 are treated roughly the same – they would get an increase of 3 percent to 4 percent in their tax burden. Those making \$65,000 to \$100,000 would pay roughly 2 percent more.

Both chambers have sought to cut school property taxes with "revenue neutral" bills containing an identical amount of offsetting tax increases. But as the budget board has noted, the House plan falls short of that and would reduce state revenue by about \$1.7 billion.

Mr. Staples cautioned that the analysis is "caused by many moving parts." He said Senate leaders believe the net tax increase is a fluke that they can isolate and fix.

He defended the bill as having worthy and popular aims.

"Many of my constituents have said a consumption tax is the type of tax they would like to see, to buy down property taxes," Mr. Staples said.

For the poorest Texans, who spend a higher percentage of their income on consumption than others, the sales-tax increases in both bills have a disproportionate impact.

The House-passed tax bill would add a penny to the sales tax, now 6.25 percent, giving Texas a state sales tax rate of

7.25 percent – the highest in the nation. Under the Senate plan, the sales tax would rise to 6.5 percent next year. If voters approved a constitutional amendment this fall proposing a statewide school property tax, the rate would rise to 6.75 percent the following year.

If that happens, Mr. Lavine said, Texas would have the fourth-highest state sales tax rate in the nation. He said Mississippi, Rhode Island and Tennessee each charge 7 percent.

Mr. Schlomach said lawmakers could keep the rate "well below 7 percent" and make the sales tax more fair by applying it to services affluent people use, such as stockbrokers, travel agents and interior designers.

E-mail [rtgarrett@dallasnews.com](mailto:rtgarrett@dallasnews.com)

#### WHO WOULD PAY?

Here's a comparison of how the House and Senate bills would affect Texans' tax burden by household income, according to the nonpartisan Legislative Budget Board. The figures reflect "tax incidence," which factors in how, for instance, businesses ultimately pass taxes on to consumers.

Household income	HOUSE			SENATE	
	Taxes under current law	Taxes under proposed changes	Difference	Taxes under proposed changes	Difference
\$0-\$13,415	\$2.01 billion	\$2.07 billion	3.06%	\$2.02 billion	0.40%
\$13,415-\$22,833	\$2.32 billion	\$2.37 billion	2.24%	\$2.4 billion	3.52%
\$22,833-\$31,735	\$3 billion	\$3.06 billion	2.16%	\$3.12 billion	4.10%
\$31,735-\$41,463	\$3.3 billion	\$3.37 billion	1.94%	\$3.43 billion	3.84%
\$41,463-\$51,750	\$4.08 billion	\$4.14 billion	1.52%	\$4.23 billion	3.70%
\$51,750-\$64,325	\$4.73 billion	\$4.78 billion	1.04%	\$4.88 billion	3.08%
\$64,325-\$79,271	\$5.68 billion	\$5.67 billion	-0.15%	\$5.82 billion	2.41%
\$79,271-\$100,593	\$6.86 billion	\$6.79 billion	-1.08%	\$6.97 billion	1.64%
\$100,593-\$140,853	\$8.55 billion	\$8.27 billion	-3.20%	\$8.55 billion	0.07%
More than \$140,853	\$13.91 billion	\$13.11 billion	-5.74%	\$13.7 billion	-1.52%

NOTES: The House plan offers more cuts for many Texans but would reduce overall state revenue by about \$1.7 billion, while the Senate plan would add about \$483 million to state coffers. Also, analysts estimate the state will have 8.4 million households in 2007, so each income group above contains about 840,000 households.

*SOURCE: Legislative Budget Board*

Online at:

<http://www.dallasnews.com/sharedcontent/dws/news/texasouthwest/legislature/stories/051005dntextaxes.9143c504.html>