

## Governor offers his plan for schools

### Leaves business tax alone but makes more companies pay it

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Gov. Rick Perry, hoping to break a stalemate between the House and Senate, said Tuesday that lawmakers should help pay for \$7 billion in property tax cuts with higher and expanded sales taxes -- but should stop trying to overhaul the state's main business tax.

Perry began a 30-day special legislative session by laying out his own plan for school and tax reforms, including a 20 percent cut this year in the property tax rate for school maintenance and operations, an 11 percent increase in the state sales tax and the expansion of that sales tax to car repairs, computer repairs and elective cosmetic surgeries.

"I don't think that you've got the votes to pass a reformed business tax today in the House or the Senate," Perry said.

Although he wants to keep the corporate franchise tax in its current form, he did say that the state should require more companies to pay it.

House and Senate leaders said they would look at the Perry plan but press ahead with their own proposals -- perhaps leaving Perry's as a fallback.

The House and Senate both approved changes in the business tax during the regular session, which ended May 30, but never had to vote on a final plan. Lt. Gov. David Dewhurst, who presides over the Senate, said Tuesday that the state must rework the business tax to cut the maximum school property tax rate by a third, which many lawmakers say is their eventual goal.

"The only way you're going to be able to do that without shifting an unconscionable amount of business taxes onto the backs of consumers is to have a reform of our tax system and have a broad-based, level-playing-field, low-rate business tax," Dewhurst said.

Perry said his plan would cut taxes overall by \$300 million. He also called for lawmakers to spend about \$1.9 billion more on public education over the next two years than they had agreed to spend when the regular session ended.

State leaders began the year aiming to create a new system of paying for public schools by cutting property taxes and boosting education spending overall while reducing the amount of money that school districts with high property values send to districts with lower values. But they could not agree how to do so, mostly snagged by disagreements over how to increase consumption and business taxes to offset the property tax cuts.

Perry did not spell out his own school finance solution during the regular session, which left him open to criticisms

that he did not give lawmakers enough guidance. He assumed a more visible role Tuesday.

"The people of Texas expect action," Perry said. "They say, 'Pick a plan and pass it.' To my friends in the Legislature, I say, 'Here's the plan. Pass it.' "

Democrats immediately said the Perry plan falls short.

"At first glance, the governor's plan appears to offer our school children too little and take too much from working families who would bear the brunt of the proposed sales tax increase," said Rep. Garnet Coleman, D-Houston.

Businesses often avoid the state's corporate franchise tax by organizing as partnerships. Perry aides said his plan would extend that tax to partnerships owned by corporations, but not by individuals, and bring in about \$864 million over two years from companies that can now avoid it.

The governor also proposed cutting the maximum property tax rate for school maintenance and operations from \$1.50 to \$1.20 per \$100 of assessed value this fall. That maximum rate does not affect the extra taxes that districts can charge to pay off debt on new buildings, such as the 12 cents tacked onto the operations tax rate in the Austin district.

Under Perry's plan, \$22,500 of a home's value would be exempt from school property taxes beginning in the fall of 2006, up from the \$15,000 per home that is now exempt.

The Perry plan would amount to a \$345 yearly savings within two years for the owner of a \$100,000 home, assuming appraisers would not increase the value of that home.

Perry called for further cuts in the maximum tax rate in future years, while saying local districts should be able to exceed the cap by 2 cents per year for maintenance and operations, capped at 12 cents, with voter approval.

His plan would increase the state sales tax from 6.25 percent to 6.95 percent, raise the cigarette tax by \$1 per pack and double the occupation fees paid to the state by professionals such as lawyers and accountants.

"The governor's plan recognizes that we cannot stifle economic growth by applying burdensome new taxes," said Brooke Rollins of the Texas Public Policy Foundation, which advocates less government spending.

Comptroller Carole Keeton Strayhorn said Tuesday there is almost \$1.9 billion available for spending in state coffers, in addition to more than \$30 billion in education spending that Perry vetoed as he called the special session. Perry said he wants lawmakers to spend the available money to give teachers an average raise of \$1,500, boost technology and buy textbooks in health, language, fine arts and physical education that lawmakers did not finance, among other goals.

Lawmakers often spoke during the regular session of increasing school funding by much more: up to \$3 billion.

Perry described his plan as the middle ground between plans pushed by the House and Senate.

"The problem is that both plans fell short of what was needed," said Melodye Pinson, president of the Association of Texas Professional Educators. "A midpoint between two inadequacies is still inadequate."

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Additional material by staff writer W. Gardner Selby

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## PROPERTY TAX

House: Cut maximum rate for school property taxes from \$1.50 to \$1.15 this fall and to \$1.10 in 2006.

Senate: Cut maximum rate to \$1.15 this fall and to \$1.10 in 2006.

Governor: Cut maximum rate to \$1.20 this fall and expand homestead exemption from \$15,000 to \$22,500 in 2006.

## SALES TAX

House: Raise state sales tax by 1 cent and extend it to car repairs and bottled water.

Senate: Raise state sales tax by half a cent.

Governor: Raise sales tax seven-tenths of a cent and extend it to computer repairs, car repairs and cosmetic surgery.

## BUSINESS TAX

House: Require companies to pay current corporate franchise tax or new payroll tax, paying at least half of the higher tax.

Senate: Rework corporate franchise tax to tax net corporate income plus a fraction of payroll.

Governor: Require more companies to pay the franchise tax but leave tax intact.

Based on House bill filed this week, Senate plan proposed in conference committee in May and Perry proposal unveiled Tuesday.

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