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## **Perry's plan helps rich at others' expense**

**A Chronicle analysis shows wealthy would save, but renters would pay more**

**By R.G. RATCLIFFE**

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AUSTIN - Gov. Rick Perry's plan for property tax relief would provide a windfall for the wealthiest families in Texas, but for lower-income renters the governor's plan would be a financial drain on the family budget, a Houston Chronicle analysis showed.

And after more than a year of legislative wrangling over property tax relief, the tax savings for the median family in Texas would amount to about \$150 a year under Perry's plan — a savings of about \$12.75 a month.

The real winner of the school property tax cuts would be business, which pays about 54 percent of all the school property taxes in Texas.

The debate through one special session, and into a second, and a regular legislative session has stalled on how to expand the state franchise tax to include business services not now covered by the tax.

House and Senate plans that died during the regular session had sales tax levies similar to the governor's, hitting the state's poor the hardest for the benefit of the wealthy.

The official Legislative Budget Board analysis of a tax plan the House Ways and Means Committee is taking up today says the plan would increase the overall tax burden for all but the wealthiest Texans. Families with an annual income of more than \$100,000 collectively would receive a \$351 million-a-year tax cut, while everyone else's taxes would go up a collective \$935 million.

Perry's plan is far less complex than that being considered by the House.

An official analysis will not be done unless a legislator files Perry's plan as a bill. So far no one

has.

## **Increasing sales taxes**

The Chronicle analysis, based on state and federal statistical reports on family income and tax liability, found Perry's \$7 billion plan for cutting school property taxes is paid for with a \$5 billion hit on consumers through increased sales tax rates, expanding the sales tax to include motor vehicle repairs and voluntary cosmetic surgery and by raising tobacco taxes.

Perry spokesman Robert Black said the governor believes his plan will give tax relief to all income groups.

"This is a record property tax reduction of \$7 billion, and we believe that is something most Texans want," Black said.

He said Perry tried to make his plan more equitable for low-income homeowners by increasing the homestead exemption by an additional \$7,500.

Black said Democrats had been pushing for an increase in the homestead exemption because it is of greater benefit to low-income homeowners than upper-income families.

In the Chronicle analysis of Perry's plan, a family of four that rents a home out of an income of about \$35,000 a year would end up paying about \$72 a year more in state taxes.

But a family of four with an income of about \$150,000 a year and owns a home valued at \$300,000 would receive a state tax cut of about \$567 a year.

Both scenarios include one major car repair costing \$300 in labor.

They do not include Perry's proposal to raise cigarette taxes by \$1 a pack, a proposal that is known to financially impact poorest Texans the hardest.

About 37 percent of the families in Texas earn less than \$35,000 a year, according to the U.S. census, while just 5 percent earn \$150,000 a year or more. About half the families in Houston are renters.

The median family income is \$45,861. Their savings, according to the Chronicle analysis, would be about \$153 a year.

The core political debate over property taxes and sales taxes comes down to what is fair.

Republicans argue that the wealthy pay the most taxes and so deserve the biggest breaks. Democrats argue that sales taxes impact the poor the hardest because they pay a larger percentage of their income in taxes when they can least afford it.

There is truth to both arguments.

Statistics from the state comptroller's office show the wealthiest Texas families, with the top 10 percent income, pay a quarter of all school property taxes raised from homeowners. The tax represents just 2.3 percent of their family income.

When it comes to sales taxes, families earning less than \$30,000 a year pay about 12 percent of the taxes collected while the state's wealthiest families pay 19 percent of the taxes.

The sales tax impact on family income is dramatically different, though.

The tax takes 1.6 percent of the income of the wealthiest families, but 4 percent to 10 percent of the annual income of the poorest families.

## **Regressive taxes**

Dick Lavine of the Center for Public Policy Priorities, a group that advocates for the poor, said the underlying problem is both the sales tax and the property tax are regressive, hitting the poor the hardest by eating a larger share of their income. He said the property tax is only slightly less regressive than the sales tax.

"When you raise a regressive tax to cut a less regressive tax there is no way you're not going to shift the burden to the poor," Lavine said.

Lavine said Perry's proposal to expand the sales tax to cosmetic surgery probably is not regressive because few poor people get Botox injections.

He said expanding the sales tax to automobile repair could be a hard hit on low-income families who tend to keep cars for a long time and repair them to keep them running.

"If you're leasing a BMW and turning it in every three years, you probably never see a repair shop," Lavine said.

## **'Only people pay taxes'**

Byron Schломach, chief economist for the business-oriented Texas Public Policy Foundation, said focusing on the savings by individuals is valid but may not catch a long-term picture.

"The change you would have to make would have to be huge to have an impact on people's (individual) finances," he said.

But he noted that the comptroller's fiscal analysis of taxes finds that even business taxes are eventually paid by individuals because they are passed through to consumers.

"People pay taxes, and only people pay taxes," he said.

Schlomach said a renter may not receive a direct rental rate cut but the property tax cut received by the owner may reduce a future rate increase.

Schlomach said property tax cuts also are important for prompting business investment that ultimately may have an impact on individuals in the form of new or retained jobs.

"If you're a welder, you may not realize you would have lost your job if this had not happened," Schlomach said. "Property tax decreases do a lot to stimulate investment."

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