

### **HB 3 barely passes committee**

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A tax plan that offers less property tax relief and generates less revenue than earlier proposals squeaked through a House committee Wednesday.

The revised bill, by Rep. John Smithee, R-Amarillo, would generate nearly a half-billion fewer dollars and lower property taxes by 33 percent less than the plan the committee came in with.

Chairman Jim Keffer, R-Eastland, said the bill is the "best plan at this juncture" because it will be well-received by a wide audience. He said the bill can be improved on the House floor, where he hopes to add more property tax relief.

The bill, which passed committee on a 5-4 party line vote, departs from previous House proposals and approximates Gov. Rick Perry's tax proposal in several respects.

Most notably, the plan abandons previous House attempts to draw more businesses into the state's franchise tax and instead conforms with Perry's suggestion of tightening enforcement of the current tax without adopting broader reforms.

Rep. Mike Villareal, D-San Antonio, authored an alternative tax plan which the committee discussed but did not vote on Wednesday. Like older versions of the House tax plan, Villareal's bill gave businesses choice between different taxation equations and expanded the tax base to cover most businesses organized as partnerships.

Villareal said the expanded tax base would have increased the number of businesses covered from 150,000 to 475,000.

The House plan as it appeared at the beginning of the special session would have reduced property taxes from \$1.50 per \$100 of property value to \$1.10.

Smithee's plan commits to \$1.23 for 2006, while Villareal's would have offered \$1.25.

Villareal said his bill would have balanced higher property taxes with increased homestead exemptions, property tax deductions for homeowners that play a prominent role in the governor's plan.

Additionally, Villareal's plan would have cut the sales tax increase in half. Villareal said the approved plan represents a "train wreck" with the Senate, whose plan also includes a half-cent as opposed to a penny increase. Both houses must approve the tax plan before it can become law.

Along with raising the general sales tax rate, the bill as approved would broaden the tax base to include bottled water and car repairs and would raise the cigarette tax by \$1.

Dick Lavine, senior fiscal analyst for the Center for Public Policy Priorities, said sales taxes

place the bulk of the burden on the people who can least afford it.

Lavine said he opposes the new plan because of the heavy emphasis on sales tax.

"It undeniably is going to be a tax break only for the very wealthy and an increase in taxes for everyone else," Lavine said.

Michael Sullivan, vice president of the Texas Public Policy Foundation, disagrees with the premise that business taxes are more equitable than sales taxes.

With higher business taxes, Sullivan said, "the people who get hurt aren't wealthy. The people who get hurt are at the lower end of the economic spectrum."

Sullivan said higher business taxes have implications down the economic ladder, exemplified by layoffs that often are hardest felt by low-rung employees who don't understand why they have been fired.

In contrast, Sullivan said people understand and can better control the effect sales taxes have because they make conscious decisions about what to buy.

"That's why business taxes are bad from the perspective of people who like open government," Sullivan said.

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