

House panel approves Perry-Craddick tax bill

Measure would raise sales levy a penny, is friendly to business

09:21 PM CDT on Wednesday, June 29, 2005

By **ROBERT T. GARRETT** and **TERRENCE STUTZ** / *The Dallas Morning News*

AUSTIN – A tax bill that would be friendly to businesses and squeeze consumers won approval from a House committee Wednesday on a party-line vote.

The measure would reduce school property taxes by 25 percent over two years, slightly revise the state's business tax and raise an array of consumption taxes. The state sales tax would increase a penny.

All five Republicans on the tax-writing panel supported the bill, and all four Democrats voted against it.

Gov. Rick Perry hailed the vote as "important progress" toward "substantial property tax relief." However, the bill is likely to receive a cool reception in the Senate because it would add a penny to the sales tax. Lt. Gov. David Dewhurst has said repeatedly that the chamber he presides over would not accept a penny increase.

Mr. Perry and House Speaker Tom Craddick, R-Midland, joined forces to draft and push the bill through the Ways and Means Committee.

Their cajoling produced an about-face by the panel's chairman, Rep. Jim Keffer, R-Eastland. As late as Wednesday morning, Mr. Keffer had been a forceful advocate of a sweeping expansion of the business franchise tax that would more than triple the number of businesses paying it and give them the option of paying a payroll tax.

By late afternoon, however, he joined GOP colleagues who opposed the payroll tax option. The measure goes only as far as Mr. Perry wants to go – plugging some loopholes and grabbing 10,000 corporations that now avoid the franchise tax.

"We passed the best bill at this time that we could pass out," Mr. Keffer said.

Rep. Mike Villarreal, a San Antonio Democrat and the committee's vice chairman, said he was "very disappointed" that Mr. Keffer had abandoned the effort to fashion a bipartisan bill.

Earlier Wednesday, Mr. Villarreal offered an overhaul that he said would make 325,000 more businesses pay the franchise tax. Currently, 150,000 businesses pay.

The bipartisan plan would have raised the 6.25 percent sales tax by only half a cent, to 6.75 percent. Under the Perry-Craddick bill, Mr. Villarreal said, Texas would have the nation's highest sales tax rate.

While Mr. Perry last week proposed increasing homestead exemptions on the property tax and subjecting cosmetic surgery to the sales tax, the bill advancing to the House floor for a vote next week would do neither.

Michael Quinn Sullivan, vice president of the Texas Public Policy Foundation, a research group that favors business and limited government, praised the bill.

"It doesn't do harmful things to the economy, like has been proposed by others, such as taxing payroll, taxing business activity," he said. "What you tax you get less of, and you don't want to get less payroll, you don't want to get less economic growth."

Dick Lavine, senior fiscal analyst at the Center for Public Policy Priorities, which advocates for low-income Texans, said the bill is unfair.

While businesses would reap much of the property tax reduction, they would pay little of the tab, he said.

"Less than 10 percent of the total revenue raised comes from closing business tax loopholes," Mr. Lavine said. "The rest comes from consumers."

Meanwhile, the House budget panel unanimously approved a bill that would allow schools to open on time later this summer. It would spend the \$33 billion for schools in the state budget that Mr. Perry vetoed earlier this month.

And the Senate will waste no time considering its school finance and education reform legislation after the House passed its version of the bill late Tuesday. Mr. Dewhurst said senators would suspend their normal operating rules so they can vote on their bill today.

That would allow the two chambers to begin negotiations on the measure early next week as the special session called by Mr. Perry hits its halfway point.

While the House and Senate plans have many similarities – such as creating a merit pay program for teachers and giving school districts about \$1.5 billion a year in new money – differences remain on items such as limiting "Robin Hood" wealth-sharing and how much to boost teachers' pay.

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TAX PROVISIONS

The package approved by House tax writers Wednesday would:

Cut school property tax rates from a maximum \$1.50 per \$100 valuation to \$1.23 this year and to \$1.12 next year

Increase the sales tax from 6.25 percent to 7.25 percent

Raise cigarette taxes by \$1.01 per pack and boost levies on other tobacco products

Extend the sales tax to bottled water and car repairs, which are currently tax-free

Raise the tax on car and boat sales from 6.25 percent to 7.35 percent

Tax sales of used cars based on "blue book" value, unless sellers swear in writing they sold the vehicle for less

Close two loopholes in the business franchise tax

SOURCE: House Ways and Means Committee

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