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Sales tax proposal clears House committee

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AUSTIN - Texans would pay the highest state sales tax in the country and would shell out more for bottled water, cigarettes and cars under a bill approved Wednesday by a House committee.

The legislation is designed to pay for an approximate 25 percent reduction in school property taxes over two years. It narrowly passed the tax-writing House Ways and Means Committee on a party-line, 5-4 vote, with all the Republicans voting yes and the Democrats voting no.

The bill stops short of the dramatic overhaul of business taxes long promised by legislative leaders. They opted instead to close popular loopholes often used by large corporations. It's early and much could change, but the vote represented a success for Gov. Rick Perry, who proposed identical loophole-closing legislation a few days ago.

"[The] compromise plan will provide substantial property tax relief and close loopholes in the franchise tax so every corporation pays its share," Perry said in a written statement. "This vote signals important progress toward a school finance agreement."

But State Rep. Mike Villarreal, D-San Antonio, the Ways and Means vice chairman, said the bill represented "a lack of courage and leadership" because it will still allow most Texas businesses to avoid taxes.

The Texas franchise tax was created in 1907, and is currently applied to corporations and limited liability companies.

Other forms of businesses, such as sole proprietorships and partnerships, are exempt from the franchise tax.

In recent years, many companies have used exempt entities to reorganize so that they face little or no business taxes. Some of the most recognized business names in Texas have been able to avoid the franchise tax.

Besides behemoths Dell and SBC, the companies include Blue Bell Creameries, Luby's, the *Star-Telegram*, the *Austin American-Statesman* and Belo Corp, which owns the *Dallas Morning News*.

Under the new House proposal, about 10,000 new corporations or corporate-like entities would face the state franchise tax, officials said. Villarreal and two other Democrats on the committee had proposed a plan that they said would force nearly half a million business entities to face a reformed franchise tax.

"The vote today represented a vote for the status quo that continues to allow some business to be taxed, and others to get away scot-free," Villarreal said.

The bill represents yet another attempt at solving the state's school finance woes.

A state judge issued an order last year that forbids the state from spending money on schools under the current finance system after Oct. 1, although the Texas Supreme Court is scheduled to hear an appeal of the case Wednesday. A ruling could take several weeks.

Perry declared school finance overhaul a legislative emergency during the regular legislative session, which ended in May. The effort ground to a halt on the final weekend when Lt. Gov. David Dewhurst, who presides

over the 31-member Senate, could not reach an agreement with House Speaker Tom Craddick, R-Midland.

The plan approved Wednesday was called a compromise, crafted in Craddick's office with the help of Perry aides. But whether it can pass Senate muster remains an open question.

Villarreal called it a looming "train wreck" with the Senate because of the strong opposition in that chamber to a large increase in the sales tax. Senate leaders said repeatedly in the last session that anything beyond a half-cent increase would fail.

The House proposal would boost the state sales tax from 6.25 percent to 7.25 percent, giving Texas the highest state sales tax rate in the country, excluding local sales taxes.

It would also extend the tax for the first time to bottled water, certain computer repair services and auto repairs. Sales taxes on cars and boats would rise from 6.25 percent to 7.35 percent, and smokers would pay \$1.01 more for a pack of cigarettes and 13.6 percent extra on other tobacco products, officials said.

In exchange, the bill would buy down school property taxes by about 25 percent over two years.

Dick Lavine, an economist at the Center for Public Policy Priorities, said the legislation would give "a tax break only for the wealthy and a tax increase for everybody else."

But Michael Sullivan, a vice president at the Texas Public Policy Foundation, said the legislation wisely avoided burdensome taxes on capital and would instead shift more to consumer goods, where voters can see what they're paying.

"We see this as good economic policy," Sullivan said. "Keep the taxes visible. Let people see what the government is costing them every time they go to the store."

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