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Discord likely on taxes on business

By Jay Root
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AUSTIN - They've all but agreed to increase taxes for shoppers, smokers and car buyers. But lawmakers in the commerce-friendly Texas Legislature are still fighting over how to tax business.

This week, they'll be at it again, and all signs point to an intense battle pitting capital-intensive companies, such as chemical manufacturers and oil drillers, against the more labor-intensive service industry and mom-and-pop firms.

Debate is expected to begin Wednesday on a sweeping overhaul of the Texas tax code. Lawmakers intend to find a better way to fund a public school finance system that is under attack in the courts.

All the competing plans are designed to reduce school-district property taxes, which lead to unequal funding from district to district. And all the serious proposals include higher sales and tobacco taxes to replace revenue lost to property tax cuts.

Where they differ dramatically is in their approach to taxing business. Gov. Rick Perry wants to close loopholes that mostly large corporations have found easy to exploit, and that is the objective of a bill that passed a House committee last week.

The top lobby group for small business owners, the Texas wing of the National Federation of Independent Business, considers Perry's approach the "least onerous" alternative, said Will Newton, the group's director.

But a powerful group of capital-intensive companies wants something Perry has consistently criticized: a payroll tax, or some version of it. That's because they are invested heavily in property and equipment. They would benefit greatly from property tax reductions but have far fewer employees on whom to base a tax than, say, retailers.

On Friday, a memo from the Texas Chemical Council, whose members include industry giants such as Alcoa and Dow Chemical, spelled out the strategy, which included the promotion of a plan that would include a payroll tax.

Attempts to reach the author of the memo were not successful.

The memo said a group of Chemical Council advocates will meet to discuss strategies today at the Texas Oil and Gas Association office in Austin. It urged lobbyists for the capital-intensive to "follow Chairman Keffer," referring to state Rep. Jim Keffer, R-Eastland, chairman of the House Ways and Means Committee.

Keffer has made no secret of his support for a plan that includes a payroll tax component, or his belief that the Legislature should create incentives for capital-intensive businesses.

He said in a telephone interview that a proposal with a payroll tax as a component is "certainly being kicked around as an amendment" to the Perry-style loophole-closing bill that passed his committee last week.

"Those industries are very much needed in Texas, and we have to make sure we keep an atmosphere where they can expand and relocate here," Keffer said.

The Texas business tax, known as the franchise tax, operates like a corporate income tax.

Under Keffer's version of the legislation, the franchise tax would be expanded beyond corporations to companies that have been exempt, including doctor and lawyer partnerships.

They could choose to pay based on either employee wages or income, but they could not avoid a payroll tax altogether if the income-tax portion dropped below a certain minimum level.

Newton, the small-business advocate at NFIB, says that makes the tax unacceptable.

"You can be losing a million dollars and still have a tax liability based on jobs, and that sends a clear message that those jobs aren't valued," he said.

Michael Sullivan, a vice president at the conservative Texas Public Policy Foundation, said capital-intensive industries carry too much of the tax load under a school finance system that relies heavily on property taxes.

But he argued that the payroll tax would discourage job creation and drag down the Texas economy.

Capital-intensive companies "really are hurt under the current system, but the solution is not to do something to hurt the rest of the economy," Sullivan said.

"The solution is not hurting anyone new."

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