

Consumers fare worst in tax plans

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

AUSTIN – Consumers, not businesses, will absorb most of the pain if the Legislature can reach a tax-swap deal in the next nine days.

The last substantive effort to broaden taxes paid by businesses died in the Senate on Sunday, as lobbyists and Gov. Rick Perry fought major changes to the state franchise tax.

That leaves just one source of revenue to make up for property tax cuts as a special session on school finance reaches do-or-die time: Texas consumers.

"The inevitable has occurred," said Southern Methodist University political scientist Cal Jillson. "Who didn't know that a Republican governor and Republican majorities in the Legislature would let business off and put the burden on consumers?"

Under versions of bills passed by both houses, consumers would be hit every time they go to the store, buy a car or boat or light up a smoke.

If the House has its way, there also would be sales tax on bottled water and auto mechanics' labor, plus a \$4 surcharge at topless bars. Should the Senate prevail, taxes on beer, wine and spirits would increase 20 percent.

And the corresponding property tax cuts probably won't be as substantial as many Texans hope. Under the Senate plan, for every \$100,000 of appraised value, a homeowner would save about \$200 this year. That's about \$16.70 a month, enough to buy about a Big Mac, fries and Coke each week.

Plus, a sizable minority – more than a third of Texans – don't own property and will see only net tax increases.

Republicans acknowledge they had to scale back their plans but say that the bills still achieve the goal of easing the pressure of school property taxes without gouging business to the point that the state's economy suffers. Backers of the bills reject the business vs. consumers argument, saying that companies ultimately pass their taxes on to customers.

But critics say that under these bills, only businesses and the wealthy come out ahead. They cite nonpartisan findings that previous but similar versions of the two chambers' bills would give the poorest 80 percent of households a net increase in taxes while the richest 20 percent get a cut.

Sen. Eliot Shapleigh, D-El Paso, one of the most vocal opponents of the tax shift, points to the

impact in his hometown, where an estimated 94 percent of families would pay higher taxes. A primary reason is that middle-class families pay almost 32 percent more in sales taxes than property taxes every year.

"Only the wealthiest Texans will see any tax relief," the senator said. "Nearly everyone else will get a tax hike under either the House or Senate plan."

Scott McCown, who heads the Center for Public Policy Priorities, which advocates for low-income Texans, said the tax change is even more burdensome on lower income households.

"This whole drive to lower property taxes is simply raising taxes on most Texans to give a tax break to the wealthiest," he said.

Efforts to expand the state's main business tax – the business franchise tax – failed in both the House and Senate, though both houses voted to close two well-known loopholes that have allowed about 10,000 corporations to avoid paying the tax.

Republican leaders admit they have scaled back earlier hopes of major reductions in school property taxes, too. But, they say, some relief is better than none.

The Senate plan adopted Monday calls for a 20-cent rate cut to \$1.30 per \$100 valuation this fall, and to \$1.25 in the fall of 2006. The House plan has larger decreases, including \$1.23 this fall.

"Most Texans would appreciate a 25-cent reduction in their local school property taxes," said Lt. Gov. David Dewhurst. He had proposed a 50-cent cut in the tax rate but had to settle for less when the franchise-tax expansion fell apart Sunday.

That proposal called for a more far-reaching overhaul of business taxes that made partnerships and other business entities pay something – which would be more than they pay now. But Mr. Dewhurst and other Senate leaders lost most of their GOP majority's support and had to back down in the face of conservative activists' complaints that the Legislature was flirting with an income tax.

House leaders acknowledged that finding the right tax mix was just as difficult in their chamber.

"Lowering property taxes is very expensive, and raising other taxes gets very tricky," added Rep. Rob Eissler, R-The Woodlands.

Mr. Eissler, a House negotiator on a companion school finance bill, said that he and other members believe that billions raised by new taxes should go to property tax reduction instead of to schools, which he thinks have gotten sufficient new funds and waste a lot of the money they do get.

An analysis of the bill as it reached the House floor – done by the nonpartisan Legislative Budget Board, a group of lawmakers who track the budget – showed that initially it would impose a net increase of \$633 million on individuals and reduce businesses' taxes by \$337 million.

That figure was cited by Mr. Dewhurst, who repeatedly warned that the Senate could not stand for shifting a billion dollars in business taxes "onto the backs of hard-working Texas families."

Byron Schломach, chief economist for the conservative Texas Public Policy Foundation, said it "obfuscates the whole issue" to look at who initially pays a new tax.

The tax is eventually passed on to consumers or absorbed by business owners, and when sales or profits are reduced, the owners lay off employees, he said.

"Businesses don't pay taxes. Only people do," said Mr. Schломach, whose group endorses higher consumption taxes and repeal of the business franchise tax.

Terry Clower, an economist at the University of North Texas, said Republican tax writers in Austin are playing to their base.

"It certainly in large part is meant to assuage the fears of many business leaders," Dr. Clower said of the tax legislation. "One of the things we've used in this state for quite a long time is the advertisement that we are business-friendly, that we have low business taxes."

Staff writer Christy Hoppe contributed to this report.

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HOW THE HOUSE'S SWAP WORKS

Here's how the House's version of a tax bill would balance property tax cuts with other increases:

Property tax cuts (over two years):

\$7.5 billion

Other increases (over two years):

Increase sales tax to 7.25 percent: \$3.48 billion

Raise tobacco taxes: \$1.3 billion

Close franchise tax loopholes: \$864 million

Increase sales tax on cars and boats to 7.35 percent: \$777 million

Expand sales tax to car repairs: \$430 million

Expand sales tax to computer repairs: \$199 million

Expand sales tax to bottled water: \$122 million

Other: \$277 million

Total: \$7.45 billion

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