

Sharp: Business tax should encourage hiring, manufacturing in Texas

Payroll tax not an option.

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A new state business tax could offer deductions for hiring and manufacturing in Texas, the head of a panel studying the state's tax structure said Tuesday.

Texas Tax Reform Commission Chairman John Sharp said the 24-member committee appointed by Gov. Rick Perry might recommend a new franchise tax levied on gross receipts or some other measure of business activity instead of net income, which the tax now covers.

In addition, he said, the committee will not recommend a tax on companies' total payrolls, an idea floated repeatedly in the Legislature over the past two years.

"What Governor Perry told us to do was to make (a business tax at) as low a rate as possible, make it broad where everybody was in the system, but don't make it a job-killer," Sharp, a Democrat and former comptroller, said after a speech to the Texas Association of School Administrators.

The commission will recommend ways to replace about \$5.8 billion per year in school property taxes that lawmakers hope to cut this year in a special legislative session.

Perry is expected to call that session this spring to respond to the Texas Supreme Court's ruling that the current system of paying for schools, which relies heavily on property taxes, is unconstitutional.

One focus of Sharp's commission is taxing businesses more broadly than the current corporate franchise tax, which most businesses are legally able to not pay. The committee might recommend a business tax with

deductions for hiring or manufacturing in Texas, Sharp said.

"We're going to have a tax system that rewards people for building stuff in Texas and hiring Texans," he said.

The current franchise tax is 4.5 percent of a company's net income or 0.25 percent of net taxable capital, whichever is greater. Sharp said the commission is looking at replacing the net-income component with a 1 percent tax on another measure of business activity, such as gross receipts.

The tax on net income has been difficult to impose on partnerships because the Texas Constitution requires voters to approve any personal income tax, and taxing a person's share of partnership income has been equated to an income tax. Taxing something other than net income would give lawmakers a way around the constitutional problem, Sharp said.

A reworked franchise tax probably would continue to exclude sole proprietors, he said.

He also said the commission is looking at broadening the state's 6.25 percent sales tax. The tax now excludes some goods, such as bottled water and newspapers, and some services, such as legal work and haircuts.

Byron Schlomach of the Texas Public Policy Foundation, which advocates for smaller government and lower taxes, said he hopes the commission keys in on consumption taxes, such as the sales tax and the roughly \$3.5 billion in surplus money now sitting in state coffers, to replace property taxes.

"We have to ultimately judge this policy by what its long-term effects are likely to be," Schlomach said. "The fact is that a business tax taxes innovation, work effort, investment and job creation."

The commission plans to recommend tax changes to the Legislature by the end of March. The Legislature is under order by the Supreme Court to change the school taxing system by June 1.

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