



Smokers, businesses tax targets

Web Posted: 03/29/2006 12:00 AM CST

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AUSTIN — Smokers could be out of luck, but a state analysis says a proposed tax overhaul to be detailed today by state leaders would produce an overall tax cut for tobacco-free Texas households — with the wealthiest seeing the largest reductions.

The analysis showing a net tax reduction of nearly \$1.3 billion for households was prepared by the Legislative Budget Board, according to a source familiar with its development who provided a copy Tuesday to the San Antonio Express-News.

In calculating the tax burden, the analysis took into account the effect of higher business taxes and use of a state budget surplus to lower school property taxes.

The analysis didn't include the effect on households' tax burden of a proposed \$1-a-pack cigarette tax increase.

Such an increase would hit lower-income households harder, but it's supported by many advocates for poor people who call it a beneficial public health measure.

The proposed tax overhaul was developed by a commission named by Gov. Rick Perry and headed by former state comptroller John Sharp.

It's meant to cut school property taxes by \$5.9 billion, replacing the revenue with a combination of an expanded business tax, the proposed cigarette tax increase and part of a state budget surplus.

A net cut for households is possible by dipping into the surplus and because of expected state revenue growth, Sharp said.

An economist who looked at the proposal said the plan also includes a shift in the tax burden from individuals to businesses, many of which legally avoid paying the current franchise tax.

Previous legislative plans to overhaul school funding have relied on increases in sales taxes along with business and cigarette taxes. They drew criticism when analyses showed only Texas families with the highest earnings would see an overall tax reduction.

The plan developed by Sharp's panel doesn't propose a sales tax increase.

"We worked very hard in trying to make sure this tax plan was not regressive and was fair," Sharp said. "We are pleased with these numbers."

The analysis shows the lowest-income households — those making \$14,042 or less — would see a 1.4 percent tax decrease under the proposal. Those making \$14,042 to \$33,190 would see a cut of 0.9 percent.

The largest tax cut, 3.3 percent, would go to households making \$146,804 and more.

Perry appointed the panel, which includes representatives of a wide range of businesses, to recommend a way to revamp the tax structure.

Legislators are to meet in special session beginning April 17 to try to answer a Texas Supreme Court order to change the tax system, which relies heavily on local school property taxes, by June 1.

The court said so many school districts have reached the property tax cap of \$1.50 per \$100 valuation for maintenance and operations that it amounts to an unconstitutional statewide property tax.

Sharp's plan is meant to provide enough money to reduce property tax rates to \$1 per \$100 valuation. But the tax cap itself wouldn't be lowered to \$1. Instead, it would go to \$1.30 in an effort to ensure that school districts have the discretion over tax rates that the Supreme Court said they must have.

Sharp said legislative leaders are looking at how much and how quickly school districts could raise rates.

The proposed tax overhaul would replace the current franchise tax with a lower-rate business tax that would reach more businesses. The new tax would be based on gross receipts and would include deductions for either the cost of goods sold or employee compensation. It would exclude sole proprietorships and those making less than \$300,000 a year.

The overhaul would increase the cigarette tax by \$1 to \$1.41 a pack and use a portion of the estimated \$4.3 billion surplus to further lower local taxes.

"At least in the Senate, I think there is pretty broad support for what the Sharp commission has come up with," said Sen. Jeff Wentworth, R-San Antonio.

Rep. Mike Villarreal, D-San Antonio, said he expects that there will be a move in the House, as there has been in the past, to target more property tax relief to homeowners rather than businesses by raising the homestead exemption.

"With elections around the corner, I think it's going to be hard for any member (of the Legislature) not to side with their homeowners," he said.

Chief economist Byron Schломach of the Texas Public Policy Foundation, which favors limited government, said his group would have preferred an increase in the sales tax.

A sales tax is straightforward, people can see what they are paying and such a tax does the least to "artificially distort prices," meaning that businesses pass on the cost of other types of taxes through higher prices anyway, he said.

Opponents of a sales tax increase say it hits lower-income people hardest because they pay the same percentage as higher-income people.

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