

Plan uses sales-tax hike to pay for schools

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AUSTIN -- Just two years after lawmakers slogged through an arduous process to revamp the way Texas pays for public schools, some Republicans are calling the system a dismal failure, advocating scrapping the whole thing and beginning again.

"We need to go back to square one," said state Sen. Dan Patrick, R-Houston.

Patrick and other conservatives propose abolishing school property taxes, starting over on Texas' much-maligned new business tax and increasing and expanding the sales tax. The sales tax, they say, would be a more fair and more transparent tax for Texans. Proponents say their plan would provide a much simpler way to raise and distribute the \$30 billion Texas pays for public schools each year.

But it's a plan critics call unworkable and unfair,

especially for the middle class and working poor in communities such as El Paso. Critics also say the plan could hurt education.

"Moving taxes from property to sales increases the net tax load for 85 percent of El Paso," said state Sen. Elliot Shapleigh, D-El Paso. "So, people will pay more, not less, in taxes."

In 2006, facing a court order to fix an unconstitutional school finance system, Texas legislators cut school property tax rates from \$1.50 per \$100 of property to \$1. To replace those funds, they implemented a new business tax and increased cigarette taxes to help pay for public education.

While school tax rates fell, home appraisals increased, and some school districts asked voters to raise their rates so property owners across the state have seen little relief in their tax bills.

Business owners have squawked loudly as this summer they paid business taxes that in some cases were many times larger than before. Adding that to the elusive property tax relief they had been promised, many business owners are angry.

"I've never been so frustrated with the government's just complete appetite to raise fees and raise taxes at every single juncture," said Michael Norwich, who owns 10 Jack in the Box restaurants in El Paso. He used to pay \$3,000 to \$4,000 per year in business taxes. This year, his bill was \$25,000.

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The Republican Party's state platform adopted earlier this month in Houston called for eliminating both the property and business tax.

The tax burden is crushing homeowners and businesses, Patrick said.

"The only way out is to move to broad-based consumption tax that is fair to everyone," he said.

When they come back to Austin in January 2009, Patrick said lawmakers first should scrub the budget, eliminating wasteful, fraudulent or unnecessary spending.

Then, he said, lawmakers should nix most of the school property tax and fund schools using the savings and a sales tax that is assessed to more items and at a slightly higher rate than the current state and local tax of 8.25 cents.

The third step, Patrick said, would be designing a new, business tax that is more fair.

If Texans could save thousands in property taxes while paying hundreds in extra sales taxes, he said, "people would vote for that all day long."

The sales tax, though, is often called regressive because families with less income spend a larger share of their money on the tax than do families with more money.

That problem could be overcome relatively simply, though, said Talmadge Heflin, former Republican chairman of the Texas House budget-

writing committee and director of the Center for Fiscal Policy at the Texas Public Policy Foundation.

Texas could create a system to repay low-income families money they spend on sales taxes, he said.

Those who say abolishing property taxes in Texas is impossible, Heflin said, have a psychological block. The sales tax, he said, is the most transparent and fair way to get money to run government.

"Some folks don't think it's feasible," he said. "That's just a mental barrier you have to get over."

But past proposals to raise the state sales tax less than a penny, far less than the two to three cents Republicans are talking about now, met stiff opposition in 2006 and eventually failed.

To generate enough money to pay for schools, lawmakers would have to raise the rate far more than two or three cents, said Dick Lavine, policy analyst for the Center for Public Policy Priorities, which advocates for low- and moderate-income families.

"If you were to eliminate school property taxes, that would be the seeds of destruction for the public school system," he said.

Because the state would collect the sales tax and distribute the money to schools, he said, local school districts would have no way to raise

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additional dollars for their needs.

And even with a rebate, he said, poor families would pay a disproportionately larger share of their income on taxes.

"We're running out of alternatives" to raise tax revenue for schools, Lavine said. "And I think it's time to talk seriously about what most other states do to give themselves a balanced state tax system."

If Texas were to institute an income tax, he said, provisions in the state constitution would guarantee a two-thirds reduction in school property taxes. Then, he said, taxes would be assessed according to a person's ability to pay.

Instead of abolishing the property tax or increasing the sales tax, state Rep. Chente Quintanilla, D-E Paso, said Texas should do a better job of monitoring and collecting existing taxes.

"I don't think we're ever going to be able to abolish property taxes," he said.

Sen. Shapleigh, long an income-tax proponent, said El Paso families aren't ready for higher sales taxes on more of their purchases.

"Out in El Paso, we need to watch for the great Texas tax shift, where taxes are cut for the wealthy and shifted to the middle class," he said. "That's what's been happening over the last 10 years."

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