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## Businesses closely monitoring margins tax legislation

[By Talmadge Heflin](#)- Special to the Express-News

Just how much money should Texas businesses pay under the newly revised franchise tax? That is the question many legislators are trying to answer and one that will soon be up for serious debate.

Calls for re-examining the revised franchise tax (aka the margin tax) have been growing in number as the economy retracts and more Texans lose their jobs. But the economic decline is only part of the reason people are taking a second look at the new business tax.

According to the comptroller's latest revenue estimate, the margin tax collected \$4.5 billion from Texans after only its first full year — a whopping 46 percent increase over the amount collected from the old tax the year before — making it the second costliest tax in the state.

And while an increase in business taxes was expected to some degree, the higher taxes were supposed to be offset by lower property taxes. While school district property taxes did decline by \$2.3 billion from 2005 to 2007, according to the Texas Taxpayers and Research Association, Texans' total property tax bills still increased by \$1.7 billion — making for higher taxes on two fronts.

Making matters worse is that all businesses with at least \$300,000 in total revenue are subject to the margin tax, whether or not a business made money. Since the tax is based on gross receipts rather than profitability, many businesses above the \$300,000 threshold that were unable to turn a profit have been forced to make an impossible choice: Close up shop, or take out a loan to pay their tax bill and hope that their business improves.

Hit with a gigantic first-year tax increase, continually rising property taxes, and an added “do-or-die” pressure, it's no surprise that many Texas businesses are crying foul.

Fortunately, a number of lawmakers from both sides of the political aisle seem to have taken notice of the issue and have made it a top priority this session. Among some of the more promising proposals that have been filed:

- Four legislators have filed identical bills that would exempt businesses with \$1 million or less in total revenues from the margin tax. Presently, only businesses with \$300,000 or less in total revenue are exempt.
- Another proposal would amend the constitution to require a three-fourths supermajority vote from each house to increase the margin tax rate any further.
- The boldest proposal would move the business tax exemption threshold from \$300,000 to \$600,000 starting in 2010; \$1 million in 2011; and repeal the tax altogether in 2014.


Reforming the margin tax is the first major step the Legislature can take to help businesses and consumers weather the ongoing economic storm, but it is only the first step.

Beyond lowering taxes, the Legislature needs to tighten its belt and rein in spending. Remember, if legislators can't keep budget growth in check today, then taxes will have to be raised tomorrow.

As the margin tax debate grows to a climax over the next three months, you can be sure that businesses everywhere are watching closely — not because businesses are greedy or don't want to pay their fair share. They are watching because their very livelihoods depend on it. They are watching because for them, there is no margin for error.

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