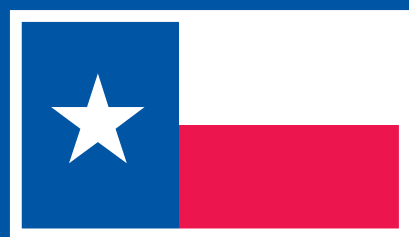


# The truth about Texas taxes



**PROPERTY TAX  
RELIEF NOW!**



TEXAS ASSOCIATION OF REALTORS®

# How Texas lawmakers made history

Gov. Rick Perry, Lt. Gov. David Dewhurst, House Speaker Tom Craddick and all the members of the Legislature worked together to pass comprehensive public-education and school-finance reform that rewards teachers, reforms our schools, and provides a record 33% property-tax cut that will make homeownership more affordable for millions of Texans. The tax-reform package reduces the net tax burden by nearly \$7 billion over the next three years by lowering public school maintenance and operation taxes in fiscal year 2007 by \$0.17 and an additional \$0.33 in 2008. All revenue-generating items in the tax-reform package are dedicated 100% to property-tax reduction. The tax-reform package also improves our tax system with a low-rate, broad-based business tax that is fair to all businesses.

This plan improves public education and allows the Texas economy to grow—creating new jobs and a better Texas for all.

The tax-reform package was passed to address the Texas Supreme Court's ruling in *Neeley vs. West Orange-Cove Consolidated Independent School District, et al.*, which imposed a June 1 deadline for the Legislature to implement a new revenue source to lower school maintenance and operations taxes, reduce our public school districts' dependence on school property taxes, and provide for local discretionary taxation. Most public school districts in Texas are taxing at the maximum \$1.50 per \$100 valuation, which in effect is an unconstitutional state property tax. The tax-reform package addressed the Supreme Court's decision as well as reading three other objectives:

1. Achieving education reform that invests greater resources in the classroom and teachers
2. Lowering property taxes in excess of \$15.7 billion by the year 2010.
3. Reforming the business tax to create a low-rate, broad-based tax that is fair to all Texas businesses

The tax-reform package also compresses local tax rates in order to sustain these hard-fought property-tax reductions and enhance our public education system.

The tax-reform package also has the support of internationally recognized economist Dr. M. Ray Perryman, president of the Waco-based Perryman Group, who writes:

*By reducing property taxes and eliminating the current capital stock component of the franchise tax, it removes much of the penalty presently imposed on large, capital-intensive enterprises. As a result, it will serve as a stimulus to investment and economic development. Moreover, it spreads the burden of taxation more equitably across various sectors of the state's business complex, thus making the system more responsive to future expansion in overall state performance and fiscal needs. The reductions in property taxes also serve as a catalyst to future real estate development. In essence, this measure ... would represent a notable milestone in moving the Texas tax structure away from an "industrial revolution" model and more toward one suited for an information and technology society.*

## Components of the tax-reform plan

### House Bill 3: Reformed franchise tax

HB 3 modernizes the state's business tax and closes loopholes that currently allow only one out of 16 businesses to pay. HB 3 is a low-rate, broad-based solution that doesn't target any industry yet brings revenue from more businesses. Under the new plan:

- The primary franchise tax rate will be lowered from 4.5% to 1% or 0.5% for retailers. This will bring an estimated \$3.4 billion to the state from businesses that currently avoid paying the franchise tax.
- The small-business exemption will be doubled from \$150,000 to \$300,000, which will help small businesses prosper and grow.
- The new reformed franchise tax increases the tax liability exemption of small businesses to \$1,000 from the current \$100, further helping small business owners.
- Each business can choose between two calculations: deducting the cost of goods sold or employee compensation (including health insurance, pensions and other benefits) from its total revenue.
- Businesses with state-provided liability protection will pay the tax, as was originally intended. General partnerships and sole proprietorships are still exempt.
- Businesses will be rewarded for creating more jobs and providing employee benefits such as health care and pensions.

## House Bill 1: Education reform

HB 1 reduces property-tax rates by \$0.17 per \$100 valuation in the first year. It also deters local taxing jurisdictions from eating up the tax reduction with rapidly increasing local rates. The bill also includes the following provisions:

- Provides a \$2,000 salary increase for teachers, restoring the full amount of the teacher health stipend and building on the positive trend in teacher compensation that has seen salaries increase by \$11,700 for teachers in the classroom since 1999.
- With \$260 million for bonuses of up to \$10,000 per teacher for locally designed incentive programs and another \$100 million for the Governor's Educator Excellence Awards Program, Texas will take the national lead in rewarding educational excellence and attracting top-performing teachers to struggling campuses. Funding is also dedicated to teacher mentoring programs to keep young educators in the classroom.
- Provides more than \$1 billion over three years to reform Texas high schools and further the goals of the governor's high school initiative, which reduces the dropout rate, replicates successful school models, and prepares more students for college.
- Helps equalize school funding and the recapture of funds sent back to the state via the Robin Hood funding formula. By 2008, close to \$1 billion in local property tax revenues will remain in local districts to be spent on local students instead of being exported to other areas of the state.
- Moves the public-school start date to the fourth Monday in August, which falls between August 22 and 28.
- Requires four years of math, science, English, and social studies beginning with the freshman class of 2007 .
- Adds new writing requirements to the high-school curriculum
- Calls for more transparency of school district expenditures.
- Encourages increased graduation rates by offering intervention programs and flexible instruction hours for at-risk students.
- Provides school districts with an additional \$275 per high school student.
- The state will make a historic commitment to funding fairness, achieving up to 94% funding equity on enrichment dollars. By next year the state share of education funding will increase to 50%, reversing a trend scheduled to take us to 34% in fiscal year 2007 if nothing had been done.

## House Bill 2: Property-tax reform

HB 2 dedicates all the revenue raised from HB 3, HB 4, and HB 5 to property-tax reduction until the maintenance and operations tax rate reaches \$1 per \$100 valuation. Most public school districts in Texas are taxing at the \$1.50 per \$100 valuation maximum, which in effect is an unconstitutional state property tax. In addition, HB 2 will give taxpayers:

- A net tax cut of \$6.9 billion over the next three years that will stimulate the economy and create jobs.
- A property tax cut in excess of \$15.7 billion by the year 2010 that will reduce the property tax bill on an average-priced home by more than \$2,000.
- Strong taxpayer protections that dedicate excess tax revenue to property-tax relief and that require a vote of the people in order for local school leaders to raise taxes more than \$0.04 for every \$100 of appraised value.

## House Bill 4: Vehicle liar's affidavit

HB 4 tightens the language and the requirements for the sale of motor vehicles so that buyers accurately state the proper sales price from used-vehicle transactions. (This bill is commonly referred to as the vehicle liar's affidavit.) This stricter standard will generate about \$40 million annually.

## House Bill 5: Cigarette tax

HB 5 increases the tax on the sale of tobacco products to raise additional revenue for property-tax relief. The bill raises the tax by \$1 per pack and will generate an estimated \$623 million to the state in 2007.



# More truth about Texas taxes

To learn more about your Texas taxes visit [www.TruthAboutTexasTaxes.org](http://www.TruthAboutTexasTaxes.org).

## How the tax-reform plan benefits all Texans

- Texans will receive a reduction in property taxes in excess of \$15.7 billion by the year 2010—the largest property tax reduction in Texas history.
- Homeownership will be more affordable for millions of Texans.
- The reforms to the franchise tax will encompass a broader cross-section of the state economy and be a fundamentally fairer way of funding our children's education or providing additional property-tax relief.
- The reforms to the existing franchise tax will apply to those businesses with state-provided liability protection, as was originally intended.
- Unlike earlier proposals for franchise-tax reform, businesses will be rewarded for creating more jobs and providing employee benefits such as: health care and pensions.
- The state will pick up an estimated 50% of the costs of funding public education, a dramatic increase over the 34% level expected for fiscal 2007.
- Doubling the small-business exemption from \$150,000 to \$300,000 in total revenue will help small businesses prosper and grow.
- The plan will reduce the amount of money recaptured and redirected to other school districts by Robin Hood.

## Why did the Texas Association of REALTORS® support the reformed business tax?

The Texas Association of REALTORS® has historically favored a low-rate, broad-based business tax to replace the current business franchise tax in Texas. The revamped business tax in the public education and school-finance reform plan meets these criteria. It will close loopholes that allow many businesses to avoid

paying the current tax through a simple restructuring. The new business tax is exactly what the Texas Association of REALTORS® has been long advocating

## Will all businesses in Texas be subject to the new business franchise tax?

No. Currently, about 2.4 million businesses exist in Texas. Of these, 1.44 million—about 60%—are sole proprietors or general partnerships and are not included under the new plan. Texas has a constitutional prohibition against a personal income tax, and assessing a tax on sole proprietors or general partners would violate this constitutional provision.

## I've heard that only one in 16 Texas businesses currently pay the business franchise tax. Under the new tax, how will this number change?

Under the new business tax, about one in eight businesses in Texas will pay a franchise tax. While the number of businesses paying the tax will increase, because of the problem of taxing sole proprietors and general partnerships, all businesses will not pay the new tax.

## It's been rumored that Texas will enjoy a \$8.2 billion budget surplus. Wouldn't it have been better for the Legislature to use these funds instead of voting for the tax-reform plan?

In short, no. While it may be true that Texas is running a budget surplus this fiscal year, there are many unfunded obligations that still must be addressed, such as hurricane relief and other items that can't just be pushed back another year.