

Texas Tax Reform & School Property Tax Relief Legislation, 2001-2008

Month & Year	Bill/Action	Franchise Tax	Sales Taxes	Cigarette Tax	Other	Property Tax
April 2001	West Orange Cove files suit against school finance system claiming they no longer have meaningful discretion in setting local tax rates					
May 2003	Senator Shapiro introduces SJR1 and SB2 at the Lt. Governor's request, which are passed out of the Senate Committee as a Whole		Sales tax base expanded to all services, except health care. Sales tax rate increased by 1.0 percent to 7.25%; motor vehicle to 8.75%.			Created a \$0.75 state property tax; allowed the legislature to set appraisal caps; allowed up to \$0.10 additional tax rate for local enrichment
May 2003	SB2 tax provisions added into HB5 , a school finance bill; HB5 and SJR1 pass Senate, House refuses to concur; no conf. committee		Sales tax base expanded to all services, except health care. Sales tax rate increased by 1.0 percent to 7.25%; motor vehicle to 8.75%.			Created a \$0.75 state property tax; allowed the legislature to set appraisal caps; allowed up to \$0.10 additional tax rate for local enrichment
April 2004	In anticipation of trial court decision, Governor Perry proposes massive education finance restructuring; calls special session	Delaware sub closed; Geoffrey's add-back	MV "liar's affidavit" (use of presumptive, rather than reported, sales price on certain used car sales)	\$1.00 per pack increase	Adult entertainment fee; video lottery	Tax roll split: \$0.25 rate reduction for residential property; \$1.25 rate cap on residential, \$1.40 state property tax on business; one third of future surpluses dedicated to property tax relief (down to \$0.75); 3% appraisal cap on homesteads; school districts have \$0.05 per biennium local enrichment (up to \$0.15)

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April 2004	House Select Committee on Public School finance; HB1 by Grusendorf	Franchise tax replaced with 1.25% payroll tax on first \$40,000 of wages	Sales tax increased to 6.75 %; base expanded to billboards, mixed drinks, bottled water, newspapers, magazines, Internet access; auto sales increased to 7.75%	\$1.00 per pack increase	\$1.00 ticket tax, TIF extended, video lottery	School tax M&O rate reduced to \$1.05; up to \$0.02 enrichment allowed per year up to max of \$0.10
May 2004	House floor action on HB1	In response to Governor's veto threat, payroll tax removed and Delaware Sub and Geoffrey's fix inserted instead	Sales tax increased to 7.0 %; base expanded to auto repair billboards, mixed drinks, bottled water, newspapers, magazines, Internet access; auto sales increased to 7.75%			School M&O tax rate reduced to \$1.20; up to \$0.02 enrichment allowed per year, up to \$0.10 max
May 2004	Senate: HB1 dies after a hearing in a Committee of the Whole.					
November 2004	Trial court rules against state in West Orange Cove lawsuit. State is given until October 1, 2005 to reform school finance system. The deadline is stayed with appeals					
January 2005	Lt Governor announces 31 Senators have signed onto his school proposal, Texas Children First , the basis for SB2 , which is never introduced	Replaces old tax with a Business Activity Tax of profits plus any compensation in excess of \$30,000 per employee; a 1.95% rate, raising an additional \$3.5-\$3.7 billion annually	Listed as "other potential revenue," but with no stated rate increase (though ½ percent was informally proposed)	Listed as "other potential revenue," but with no stated rate increase (though 50 cts/pk was informally proposed)	Other potential revenue listed included alcohol taxes, TIF, improved delinquent tax collections, liar's affidavit, et al. Not listed but on later lists was a real estate transfer fee	\$1.00 state property tax with \$0.05 per biennium for local enrichment, up to max of \$0.15

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March 2005	CS for HB 3 passes out of Ways and Means (HB3 as introduced was a shell bill)	New franchise tax of 1.15% on first \$90,000 of wages, collected by TWC.	State rate increased to 7.25%; base expanded to include billboards, car repair, car washing, bottled water, newspapers. Auto sales tax incr to 7.35%; presumptive value on sales of used cars.	\$1.00 per pack increase; similar increase on tobacco products; new fee on mfgs not in tobacco settlement agreement	3% tax on soft drinks & snacks; 15% of new state revenue used to buy down school tax rate; TIF continued.	\$1.50 cap reduced to \$1.00; \$0.02 per year local option enrichment, up to max of \$0.10; sales price disclosure
March 2005	HB 3 passes the House	Business tax expanded to all businesses with some exclusions; choice of either old franchise tax or a new 1.15% tax on wages (no cap), combined reporting, collected by TWC, Comptroller says minimum tax needed	State rate increased to 7.25%; base expanded to include billboards, car repair, car washing, elective cosmetic procedures, newspapers; timely filer discount reduced. Auto sales tax increased to 7.35%; presumptive value on sales of used cars.	\$1.01 per pack increase; similar increase on tobacco products;	3% tax on soft drinks & snacks; 15% of new state revenue used to buy down school tax rate; TIF continued	\$1.50 M&O cap dropped to \$0.997; \$0.02 per year local option enrichment, up to max of \$0.15; sales price disclosure
May 2005	HB3 Passes Senate Finance	Franchise tax expanded to liability-protected entities, earned surplus tax reduced to 4.25%, but base expanded to include 25% of compensation (phased in)	State rate increased to 6.75% (phased in); sales tax holiday expanded to school supplies. Auto sales tax increased to 6.75%; presumptive value on sales of used cars.	\$0.75 per pack increase; increase on other tobacco products. Alcohol taxes increased 25%.	TIF extended and cable services included; highway fund transfer deferred; some tobacco proceeds and trans funds deferred.	\$1.10 state ad valorem tax established after phase-in (some tax provisions do not take effect if amendment fails)

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Month & Year	Bill/Action	Franchise Tax	Sales Taxes	Cigarette Tax	Other	Property Tax
May 2005	HB3 Passes Full Senate	Brimer "basket tax" variant added, so that taxpayer may pay either a 2.5% tax on profits plus some portion of compensation (or a 0.25% tax on capital) or a 1.75% tax on payroll (capped at \$1,500 per employee), but not less than 0.25% of gross receipts; tax expanded to all businesses with some exclusions. Taxable capital pyramiding eliminated.	State rate (but not auto sales) increased to 6.75% (phased in); tax base expanded to include billboards, car repair, car washing, elective cosmetic procedures, newspapers; timely filer discount reduced. New December sales tax holiday added.	\$0.75 per pack increase; increase on other tobacco products.	TIF extended without adding cable services; highway fund transfer deferred; some tobacco proceeds and trans funds deferred.	Local M&O rate cap reduced to \$1.15 over two years with up to \$0.15 local enrichment allowed with voter approval; no state property tax
May 2005	HB3 Conference Committee Stalemates	Senate reportedly drops basket tax and returns to BAT				Conferees reportedly agree to local school M&O target near \$1.20
June 2005	Governor calls special session; HB3 reintroduced	Choice of old franchise tax or 1.15% payroll tax; minimum tax is a "floating floor" of half of the alternative not chosen; tax expanded to all businesses with some exclusions.	State rate to 7.25%. Base expanded to certain computer goods and services, auto repair, bottled water. Timely filer discount repealed. Auto sales tax to 7.35%; presumptive value on used car sales.	\$1.00 per pack increase; increase on other tobacco products.	15% of new state revenue used to buy down school tax rate;	\$1.23-\$1.12 M&O base tax rate targeted

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July 2005	CS for HB3 Passes House Ways and Means	Old franchise tax with Delaware sub and Geoffrey's sub fix.	State rate to 7.25%. Base expanded to certain computer goods and services, auto repair, bottled water. Timely filer discount repealed. Auto sales tax to 7.35%; presumptive value on used car sales.	\$1.00 per pack increase; increase on other tobacco products.	15% of new state revenue used to buy down school tax rate; private tax debt collectors.	\$1.23-\$1.12 M&O base tax rate targeted
July 2005	HB3 Passes House	Old franchise tax with Delaware sub and Geoffrey's sub fix.	State rate to 7.25%. Base expanded to certain computer services, auto repair, bottled water. Timely filer discount repealed. Auto sales tax to 7.35%; presumptive value on used car sales.	\$1.00 per pack increase; increase on other tobacco products. Mixed drinks tax must be separately stated.	15% of new state revenue used to buy down school tax rate; private tax debt collectors; certain traffic fines to state, \$4 fee on sex businesses.	\$1.23-\$1.12 M&O base tax rate targeted
July 2005	HB3 passes Senate Finance	Expanded to liability protected entities; earned surplus rate dropped to 4.25%, but payroll added to base, deducting lesser of \$30,000 per employee or 90% of payroll. Taxable capital pyramiding eliminated. Subject to voter approval.	State rate to 6.75%. Base expanded to certain programs, auto repair, sales tax relief for low income households. Auto sales to 6.75%; presumptive value on used car sales.	\$1.16 per pack increase (phased in); increase on other tobacco products. Alcohol taxes increased by 20%		\$1.30-\$1.05 M&O base tax rate targeted

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July 2005	HB3 passes Senate	Franchise tax repealed; study commission established. Taxable capital pyramiding eliminated.	State rate to 6.75%. Base expanded to certain programs, auto repair, sales tax relief for low income households. Auto sales to 6.75%; presumptive value on used car sales.	\$1.16 per pack increase (phased in); increase on other tobacco products. Alcohol taxes increased by 20%	Fee on radioactive substances	\$1.30-\$1.14 M&O base tax rate targeted. Homestead exemption increased by \$15,000, subject to voter approval.
July 2005	Conference Committee Stalemates; session expires					
July 2005	Governor calls special session; HB3 reintroduced.	Old franchise tax with Delaware sub and Geoffrey's sub fix.	State rate to 7.0%. Base expanded to certain computer goods and services, auto repair, bottled water. Timely filer discount repealed. Auto sales tax to 7.0%; presumptive value on used car sales.	\$1.00 per pack increase; increase on other tobacco products.	15% of new state revenue used to buy down school tax rate; private tax debt collectors; certain traffic fines to GR; 10% radioactive waste fee	\$1.25-\$1.21 M&O base tax rate targeted
July 2005	HB3 passes Ways and Means, without amendments in formal hearing without testimony	Old franchise tax with Delaware sub and Geoffrey's sub fix.	State rate to 7.0%. Base expanded to certain computer goods and services, auto repair, bottled water. Timely filer discount repealed. Auto sales tax to 7.0%; presumptive value on used car sales.	\$1.00 per pack increase; increase on other tobacco products.	15% of new state revenue used to buy down school tax rate; private tax debt collectors; certain traffic fines to GR; 10% radioactive waste fee	\$1.25-\$1.21 M&O base tax rate targeted

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Month & Year	Bill/Action	Franchise Tax	Sales Taxes	Cigarette Tax	Other	Property Tax
July 2005	HB3 fails in a House floor vote					
November 2005	Supreme Court issues final decision against the state, and gives lawmakers until June 1, 2006 to reform the school finance system.					
March 2006	Texas Tax Reform Commission (TTRC) offers plan	New franchise tax expanded to all liability protected active entities; calculation based on total revenues less either cost of goods sold or compensation, with tax base NTE 70% of revenue	No change in general sales tax; presumptive value on certain used car sales.	\$1.00 per pack increase, as well as hike in other tobacco products		One third reduction in school M&O taxes with local option for additional \$0.17 cents (above \$0.04 requires voter approval).
April 2006	Governor calls special session; TTRC plan introduced as HB3, HB4, and HB5					
May 2006	TTR Plan passes with few changes from original proposal					
May 2007	HB3928 Passes; making a number of technical corrections to the franchise tax.	Correction on partnership income, apportionment; small business exemption expanded.				