

**Summary of Proposed Senate Committee Substitutes
for H.B. 3 and S.J.R. 38
Chairman Steve Ogden
May 2, 2005**

Article 1: Public School Finance

- In the first year of the biennium, the school maintenance tax rate is reduced to \$1.30 for most districts.
- If S.J.R. 38 passes:
 - the \$1.30 local property tax rate is replaced by a uniform \$1.10 state property tax.
 - an enrichment tax with a maximum rate of 15 cents is authorized with local voter approval.
 - The enrichment tax rate is phased over four years.

Article 2: Restrictions on Property Valuation and State Aid to School Districts

- Article 2 revises several property tax deadlines, exemption periods, and extensions to reduce late property value adjustments and the related expense to the foundation school fund. This codifies a recommendation of the Legislative Budget Board's *Staff Performance Report to the 79th Legislature*.

Article 3: State Property Tax

- Article 3, which only takes effect if S.J.R. 38 passes, imposes a state property tax to fund public elementary and secondary school purposes at a rate of \$1.10.
- Property is appraised by the appraisal district that appraises property for the school district; the tax is collected by the assessor-collector for the school district.

Article 4: Reformed Franchise Tax

- The tax applies to all business entities other than sole proprietorships and certain passive entities.
- The Delaware subsidiary and *Geoffrey* loopholes are closed.

- The tax rate (earned surplus) is reduced from 4.5% to 2.5%.
- In calculating the earned surplus tax base, 50 percent of compensation payments (taken from the federal unemployment tax return) is added to federal reportable taxable income.
- For general partnerships, no tax is due if gross receipts are \$300,000 or less; for all other taxable entities, the threshold remains \$150,000.
- Franchise tax revenue is dedicated to the foundation school fund.
- A constitutional claim against this tax must be brought in district court in Travis County and may be reviewed only by direct appeal to the Texas Supreme Court. If the tax is held unconstitutional, all taxable entities, other than corporations and limited liability companies, must subtract from the tax base the portion of federal reportable income found to be unconstitutional and add 0.75 percent of the entity's gross receipts to the tax base.
- Taxable capital calculation is not changed.

Article 5: Sales and Use Taxes

Part A - State Sales and Use Tax

- The sales and use tax rate is increased 0.50%, to 6.75%.
- Lone Star Card holders are provided with a rebate of 20% of sales taxes paid (based on comptroller estimates) in the form of 1) additional monthly state money payments for TANF recipients, or 2) additional monthly nutritional assistance for food stamps recipients.

Part B - Motor Vehicle Sales and Use Tax

- The motor vehicle sales and use tax rate is increased 0.50%, to 6.75%.
- The motor vehicle rental (30 days or more) tax rate is increased 0.50%, to 6.75%.
- If the amount paid for a motor vehicle is less than the standard presumptive value, (e.g., "blue book" value), the tax is calculated based on the standard presumptive value, unless the purchaser establishes the retail value. If amount paid is greater than the standard presumptive value, the tax is based on the price paid.

Part C - Boat and Motor Boat Sales and Use Tax

- The boat and motor boat sales and use tax rate is increased 0.50% to 6.75%.

Part D - Motor Fuels Tax

- The transfer of motor fuels tax revenue from general revenue to the state highway fund is delayed for three months in odd-number years.

Part E - Hotel Occupancy Taxes

- Eliminates the permanent resident exception to the hotel occupancy tax as recommended by the Legislative Budget Board's *Staff Performance Report to the 79th Legislature*.

Article 6: Tax On Tobacco Products And Alcohol

Part A - Cigarette and Tobacco Products

- The cigarette tax is increased \$0.60 per pack to \$1.01 per pack.
- All other tobacco taxes are increased 25%.

Part B - Alcohol Taxes

- All alcohol excise tax rates (including the mixed beverages gross receipts tax rate) are increased by 25%.

Article 7: Miscellaneous Fees And Funds

Part A - Transferring Certain Tobacco Settlement Proceeds Into Dedicated General Revenue Accounts

- More than \$1 billion of Tobacco Settlement proceeds currently outside general revenue are transferred to general revenue. This is a one-time gain to pay for the Senate's proposed higher education funding and to free general revenue to fund H.B. 2.

Part B - Texas Mobility Fund

- Background: HB 3588, 78th Legislature, Regular Session, redirected fee revenue previously deposited to general revenue fund into the mobility fund in exchange for new fee revenue to be deposited to general revenue. HB 2, 78th Legislature, 3rd Called Session, delayed the fee revenue swap until September 1, 2005.
- HB 3 phases in the revenue swap over FY 06-07.
- Mobility Fund revenues are sufficient for TxDOT to issue a \$1 billion bond package this summer and a \$1 billion bond package next summer.

Part C - Telecommunications Infrastructure Fund

- The current TIF assessment is extended beyond the \$1.5 billion cap.
- The TIF assessment is imposed on telecommunications receipts of cable companies.

Article 8: Effective Date

- Except as otherwise provided, this act takes effect July 1, 2005.
- This act only takes effect if H.B. 2 (the school finance bill) becomes law.