



From the Desk of
Representative
Dan Flynn



The Flynn Report

March 19, 2005

Greetings constituents, supporters and friends:

In order to continue with my comments regarding the last two weeks of the 79th Session of the Texas Legislature I felt I needed two reports to provide a better understanding of these two important bills. This is the second of these reports.

The bills are House Bill 2 (HB2) the Public School Finance bill and House Bill 3 (HB3) the property tax relief and funding mechanism for HB2. Both bills passed providing additional funding and accountability for public schools and represents the largest property tax cut in Texas history. The tax cuts are offset by government efficiencies and budget cuts, reforming the franchise tax, increasing the sales tax, and adding a \$1 tax on cigarettes, making HB3 revenue neutral.

The bill as passed would provide cuts in school property taxes by one-third, which translates into a savings for hardworking Texas taxpayers of \$5.4 billion. HB3 protects and enhances job creation by reducing the crippling burden of property taxes and reforming and simplifying state taxes. Part of the tax cut will be made up by revising the current franchise tax, which is plagued by loopholes. At the present time, approximately 83% of Texas businesses pay nothing. Corporations are able to avoid the franchise tax by filing minimal paperwork, shifting the tax burden to capital intensive businesses. As businesses avoided and escaped paying the franchise tax, the burden increasingly shifted to working families struggling to pay higher and higher property taxes. The current tax system has undermined home-ownership. It penalized agriculture, manufacturing, real estate and other job creators. And as more businesses reorganize to avoid paying taxes, the fiscal hole, the inequality and the burden on homeowners continued to grow.

HB3 will close the "Delaware Sub/Geoffrey" franchise tax loophole. It will leave businesses the option of two different tax calculations. They will have the option of choosing whichever is lower for them: the franchise tax that they currently pay OR the compensation tax. Employers can choose the simplest, fairest option for their particular business as these tax reforms are implemented. Businesses will have the opportunity to re-examine the tax mechanism they choose every three years. This will ensure that as businesses change they can modify the way they are taxed. Business property taxes will receive the same 33% cut as private property taxes.

Under this bill, many who pay nothing today will pay a little tomorrow. Many who pay a lot today will pay less tomorrow. HB3 will require everyone to pay something to assist in funding the vital services and paying for Texas schools. It's the fair thing to do. It means the largest property tax relief in the history of Texas, allowing homeowners to see a *record* 33 percent school property tax cut.

Everyone has known the Current Franchise Tax System was Broken and Unfair to taxpayers. They have become sick and tired of increasing property taxes and the unfair, complex and burdensome tax system. HB3 means record property tax relief, and replaces this broken, loop-holed, patchwork tax system with a fairer, flatter and more stable system for the 21st Century. The maximum school maintenance and operating property tax rate will fall from \$1.50 per \$100 dollar valuation to just \$1.00.

This bill also ensures future property tax rate reductions. Fifteen percent of new state revenues from one biennium to the next – excluding federal funds and constitutionally dedicated revenue – is committed to additional school property tax relief.

Gaping loopholes will be closed, but small businesses with no employees and earning less than \$150,000 in gross receipts will continue to be exempt. Non-profit entities will also remain tax-exempt.

Changing the tax system is never easy. Everyone wants to cut property taxes. No one wants to generate the revenue needed to fund education, health care, criminal justice and other services we all depend on. Some preferred a personal income tax, higher businesses taxes or less property tax relief for homeowners. Some even support the minority party ideas complaining it was not enough or it was not revenue neutral. Those ideas do not have sufficient support from the public or the Legislature.

Another important consideration, with regard to HB3, the Comptroller has estimated that Texas will see \$2 billion in personal income growth, \$3 billion in investment growth and 48,000 new jobs by 2007. By 2015, HB3 will spark \$5.8 billion in personal income growth, \$8 billion in investment growth and 88,000 new jobs. Passage of HB3 meant voting for property tax

relief, increased personal income, more investment and tens of thousands of new Texas jobs.

The three largest employers in Texas do not currently pay any type of business tax and will under this plan. They have indicated they will and can participate in this option. One of these large companies used to pay \$25 million annually to the state under the current plan before finding a loop hole and since that time they pay \$0 to the state. When everyone is participating and paying their fair share we will again make the additional necessary tax cuts as was done in the previous session to hold state government accountable to the citizens.

Those that want to and have criticized this effort should understand a "no" vote is always the easy vote. One can always find something you do not like in a bill and vote against it. Leadership requires one to do what is hard to do when it is hardest to do it. Being willing to lead includes making the tough votes so government will be responsive and accountable to take care of the needs and demands of the citizens.

After much partisan dueling that often became personal, the House leadership can also thank members of the minority party for some success of this effort. There is no question the minority party made positive contribution to the debate despite their overall opposition to both bills. One Democrat voted for the tax bill after none voted in support of the public school finance measure that cleared the House last week. Only Nine Republicans voted against the tax bill. In spite of this we were able to achieve our primary mission of moving the process along toward a conference committee that will write the final public school finance and the tax plan.

It is important for you to know what others are saying about HB2 and HB3

“House Bill 3 is legislation that TAB supports. HB 3 ensures that every employer in Texas pays its fair share while safeguarding small businesses from being unfairly penalized.” -- Texas Association of Business

“Texas legislators have made real progress, passing two bills that are part of the solution. House Bill 2 provides \$3 billion in additional funding for Texas public schools, but with new accountability measures in place. House Bill 3 cuts school property taxes by one-third. This property-tax decrease will give Texas homeowners a much-needed break. It will attract more businesses to Texas and create new jobs. It will increase personal income.” -- Texas Association of REALTORS.

I am making plans to attend the rally that Republican Party of Texas Chairman Tina Benkiser will speak at along with representatives from a broad coalition of anti-gambling organizations Rally at the State Capitol in Austin. The rally will be held on Thursday, March 31st at 11 AM. This issue

is coming up and it is important that you express your views on this issue, as there is a very strong effort to expand gambling in Texas.

On a very positive note the Van Vandals won the AAA boys state basketball championship in the Erwin Center in Austin. The first lady of Texas Anita Perry and I were honored to present the game ball, the state championship trophy along with the medals to the players after their convincing victory over Graham 62-41. It was very gratifying to me to know the quality of the programs academies and the athletes that produced a state champion. I am very proud of Coach Jerry Cassalls, his team and this accomplishment.

I was honored to host a large group from Van Zandt County on March 8th and 9th to celebrate Van Zandt County Day in Austin. Due to the House being in session I was unable to enjoy the planed program. My staff attended and had a wonderful time meeting and visiting and discussing issues important to Van Zandt County and the state of Texas.

Thank you to the many that responded to keep me and my many colleagues in your thoughts and prayers as we face the challenges of our great state of Texas.

We continue to welcome your input and your questions. Contact our office located in the Capitol extension: E1.324. Mailing address: P. O. Box 2910, Austin, TX, and 78768 phone number 512-463-0880. Email: dan.flynn@house.state.tx.us.

If you know someone who is not receiving our report please forward this email to them and let them know they can sign up to receive it.

God bless you and God bless Texas,

Dan Flynn
State Representative, District - 2

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