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Wednesday, calling for cutting the franchise tax rate as well as extending the \$1 million small-business tax exemption to all Texas businesses.

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The largest business lobbying group in Texas has jumped on the tax relief bandwagon Wednesday, calling for cutting the franchise tax rate as well as extending the \$1 million small-business tax exemption to all Texas businesses.

The Texas Association of Business issued its proposal, which would cost the state billions in revenue, as the Legislature prepares to debate whether to restore cuts made to public education and other government services in its 2011 budget or to provide tax relief to businesses or homeowners.

“We realize that this is a starting point for discussions, but we don’t think that this is an opportunity that can be passed up by lawmakers and the leadership,” said Bill Hammond, Texas Association of Business president. “We believe that this is an opportunity for lawmakers to give Texas businesses more opportunities to grow and flourish.”

Under the proposal, TAB calls for reducing the franchise tax by a quarter of a percentage point at a cost of \$2.4 billion, allowing all companies to exempt their first \$1 million in annual gross receipts at a cost of \$1.8 billion and making the exemption permanent. TAB also endorsed a research and development tax credit at a cost of \$300 million and a sales tax exemption for college textbooks and computers.

TAB’s call for tax relief comes in the wake of several lawmakers filing legislation to phase out the franchise tax, more commonly called the margins tax, and Gov. Rick Perry and Lt. Gov. David Dewhurst picking up the tax relief banner in light of a rebounding economy and higher revenue projections.

TAB's proposal also follows in the footsteps of the Texas Chapter of the National

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The federation has been working against the franchise tax, championed by Perry in 2006 in exchange for property tax cuts, for years. Newton argues that the tax discriminates among businesses and hurts the economy by taxing companies when they are struggling in a recession.

Hammond said the rate cut proposed by TAB could be the first step in phasing out the franchise tax.

Until the latest revenue forecasts, Hammond had said he doubted the state would have the revenue to phase out a franchise tax that has accounted for about 10 percent of all state tax revenue. But he said Texas Comptroller Susan Combs' forecast for the next two years changed his mind.

"We needed to see how much money was available," Hammond said. "There's money to fund some or all of it."

Dick Lavine with the Center for Public Policy Priorities, which advocates for low- and middle-income families, disagrees.

Lavine said state funding for education is \$500 per student less than before the 2011 cuts. He also noted Texas' needs for water and transportation infrastructure.

Although the Legislature is expected to be even more conservative this year than in 2011, Lavine said he's begun talking to GOP lawmakers and they aren't in lock step for tax cuts.

"Not all of them are enthusiastic about tax cuts because they realize the state has higher priorities," Lavine said.

According to Combs, the Legislature has an estimated \$101.4 billion for general-purpose spending for the next two years. But after paying for the 2011 accounting

gimmicks the Legislature used to balance the budget, lawmakers will be left with

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Other budget experts question Hammond's assumption that as much as \$1 billion might be available for the TAB agenda.

And why not property tax relief for homeowners instead of tax cuts for business?

Hammond said the business community pays 62 percent of state and local taxes.

"If we give homeowners relief, more of the burden will fall on business," Hammond said. "We see this as an opportunity to reduce that burden."

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