

Texas and Taxes

Texas famously does not have an income tax, but it does have a tax on businesses' gross receipts – not *profits*, but *cash flow*. This is the “franchise tax.” The tale of how that came to be might be filed under: How to take a race-baiting class-warfare lawsuit and turn it into a pretty good tax cut that basically everybody hates. Texas politics gets a little weird sometimes. (Warning: Wonkiness Ahead.)

Back in the dark ages of 1984, the Mexican American Legal Defense and Education Fund (MALDEF) filed a lawsuit against the state of Texas on behalf of the Edgewood Independent School District of San Antonio, alleging that Texas's system of public-school finance, which relied almost exclusively on local property taxes, was unconstitutional. Because some districts are property-rich and some are property-poor, the same tax rate produced wildly different revenues from community to community. MALDEF argued that, under the state constitution, funding public schools was a state responsibility, not a mainly local one. The Texas Supreme Court, in a unanimous ruling, upheld MALDEF's complaint, and there followed a decades-long saga that found the Lone Star State trying to construct a new system of school financing that would pass constitutional muster, and failing twice before it settled on a plan.

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