

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Ron Wilson, Chair, House Committee on Ways & Means

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB361 by Dutton (Relating to exemptions from the sales tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB361, As Introduced: a negative impact of (\$243,530,000) through the biennium ending August 31, 2005, if the effective date of the bill is July 1, 2003; or a negative impact of (\$143,956,000) through the biennium ending August 31, 2005, if the effective date of the bill is October 1, 2003.

The following table assumes an effective date of July 1, 2003.

All Funds, Six-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue Gain/(Loss) from <i>Cities</i>	Probable Revenue Gain/(Loss) from <i>Transit Authorities</i>	Probable Revenue Gain/(Loss) from <i>Counties/Special Districts</i>
2003	(\$35,227,000)	\$0	\$0	\$0
2004	(\$101,817,000)	(\$19,316,000)	(\$6,960,000)	(\$2,413,000)
2005	(\$106,486,000)	(\$20,295,000)	(\$7,314,000)	(\$2,535,000)
2006	(\$111,233,000)	(\$21,329,000)	(\$7,686,000)	(\$2,666,000)
2007	(\$115,229,000)	(\$22,412,000)	(\$8,076,000)	(\$2,800,000)
2008	(\$119,873,000)	(\$23,557,000)	(\$8,488,000)	(\$2,943,000)

The following table assumes an effective date of October 1, 2003.

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue Gain/(Loss) from <i>Cities</i>	Probable Revenue Gain/(Loss) from <i>Transit Authorities</i>	Probable Revenue Gain/(Loss) from <i>Counties/Special Districts</i>
2004	(\$36,945,000)	\$0	\$0	\$0
2005	(\$107,011,000)	(\$20,295,000)	(\$7,314,000)	(\$2,535,000)
2006	(\$111,970,000)	(\$21,329,000)	(\$7,686,000)	(\$2,666,000)
2007	(\$116,952,000)	(\$22,412,000)	(\$8,076,000)	(\$2,800,000)
2008	(\$121,176,000)	(\$23,557,000)	(\$8,488,000)	(\$2,943,000)

Fiscal Analysis

The bill would amend Chapter 151 of the Tax Code to extend the existing limited sales tax exemption for clothing and footwear from the current three-day period to fourteen days each August.

The bill would exempt certain school supplies (including textbooks, books, and other instructional materials) from the sales tax if the items were required for classroom use by a student in a public or

private elementary or secondary school, had a value of less than \$100, and were purchased in the month of August.

A retailer would not be required to obtain an exemption certificate except in instances where the quantity purchased would indicate a non-school usage. The bill would allow the repeal of the exemption for school supplies by local taxing jurisdictions, as it would relate to their local sales taxes, as provided by Chapter 326 of the Tax Code.

The bill would take effect July 1, 2003, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect October 1, 2003.

Methodology

Data on the sale of clothing, footwear, school supplies, and textbooks were obtained from a variety of sources, both public and private, including the U.S. Census Bureau. The data were adjusted for the appropriate price range and time period, multiplied by the state sales tax rate, adjusted for the potential effective dates of July 1, 2003 and October 1, 2003, and extrapolated through fiscal 2008. The fiscal impacts on units of local government were estimated proportionally.

Once the static fiscal impact was estimated, the dynamic fiscal impact was calculated using a Texas-specific general equilibrium model to distribute among the state's economic sectors the savings that otherwise would have been paid in taxes by consumers. The revenue feedback calculation was based on the historical relationship between state tax revenues and associated economic factors.

Note: This analysis assumes that a portion of the sales tax generated by college textbooks would be exempted by this bill, as well as a portion of the sales tax collected on books sold at non-college, public bookstores.

The dynamic tax feedback effects are shown only with respect to the gain/loss incurred by the General Revenue Fund 0001.

Local Government Impact

Local units of government would have a corresponding fiscal impact from sales tax revenues, as indicated in the above tables.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JK, JO, SD, WP, SM