

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 9, 2003

TO: Honorable Teel Bivins, Chair, Senate Committee on Finance

FROM: John Keel, Director, Legislative Budget Board

IN RE: SB823 by Fraser (Relating to administration of the sales and use tax and compliance with the Streamlined Sales and Use Tax Agreement.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB823, Committee Report 1st House, Substituted: a positive impact of \$3,360,000 through the biennium ending August 31, 2005.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$1,489,000
2005	\$1,871,000
2006	\$1,955,000
2007	\$2,038,000
2008	\$2,123,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND 1</i>	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	\$1,489,000	\$247,000	\$89,000	\$31,000
2005	\$1,871,000	\$344,000	\$124,000	\$43,000
2006	\$1,955,000	\$360,000	\$130,000	\$45,000
2007	\$2,038,000	\$375,000	\$135,000	\$47,000
2008	\$2,123,000	\$391,000	\$141,000	\$49,000

Fiscal Analysis

The bill would amend Chapter 142 of the Tax Code to comply with the Streamlined Sales and Use Tax Agreement as amended and adopted on November 12, 2002 by the Streamlined Sales Tax Project, of which Texas is a participating state.

The Streamlined Sales and Use Tax Agreement is a multi-state effort to simplify and modernize sales and use tax administration within the member states to reduce the burden of tax compliance. The bill would authorize the Comptroller to enter into the agreement on behalf of the state of Texas if the Governor, the Lieutenant Governor, the Speaker of the House of Representatives, and the Comptroller unanimously agreed that it would be in the state's best interest to be a signatory to the agreement.

To comply with the Streamlined Sales and Use Tax Agreement, the bill would amend Chapter 151 of the Tax Code to require a change in the sales tax rate to become effective on the first day of a calendar

quarter and to adopt the uniform definition of "food products" and "prepared food". Because of the latter definition change, the bill would make conforming changes to provisions relating to the exemption for certain uses of gas and electricity.

Chapters 321 and 323 of the Tax Code, relating to municipal and county sales taxes, respectively, would be amended to specify the sale of a taxable service is consumed at the location at which the service is performed or otherwise delivered. This would change the consummation of sales for services from the point of origin to the point of destination. Provisions in Chapter 151 would be amended to require sales tax permit holders to collect any applicable local use taxes even if the permit holder were not engaged in business in the local jurisdiction into which the taxable items were shipped or delivered.

The Comptroller would be required to conduct a study of the costs to political subdivisions of changing sourcing laws relating to the sale of tangible personal property to comply with the streamlined sales and Use Tax Agreement.

Section 151.326(c) and Chapter 326 of the Tax Code, which allow local taxing authorities to repeal the exemption for clothing and footwear for a limited time, would be repealed.

Sections 151.103(d) and 151.202(c) of the Tax Code as added by the bill and the changes to Sections 321.203 and 323.203 of the Tax Code would take effect July 1, 2004. Otherwise, the bill would take effect October 1, 2003.

Methodology

The bill would make various changes to the Tax Code to comply with the Streamlined Sales and Use Tax Agreement. The changes, however, would not make substantial changes to the way in which most state and local sales and use taxes are collected and administered in Texas.

With regard to Internet transactions, the bill would simplify tax collection procedures for retailers that currently do not remit tax for sales conducted over the Internet. This would encourage some retailers to begin collecting and remitting tax and would have a positive effect on sales tax revenues.

Local Government Impact

Local units of government would have a corresponding fiscal impact from sales tax revenues, as indicated in the above table. The proposed changes relating to the sourcing of transactions for local sales and use tax purposes could result in a shift of revenues between jurisdictions but would not significantly affect total collections.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JK, SD, WP, SM