

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION**

**April 18, 2005**

**TO:** Honorable Jim Keffer, Chair, House Committee on Ways & Means

**FROM:** John S. O'Brien, Deputy Director, Legislative Budget Board

**IN RE: HB2787** by Veasey (Relating to the application of the sales tax to services for repairing and remodeling certain commercial properties.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB2787, As Introduced: a negative impact of (\$6,345,000) through the biennium ending August 31, 2007.

**General Revenue-Related Funds, Five-Year Impact:**

| Fiscal Year | Probable Net Positive/(Negative)<br>Impact to General Revenue Related<br>Funds |
|-------------|--|
| 2006        | (\$2,804,000)  |
| 2007        | (\$3,541,000)  |
| 2008        | (\$3,801,000)  |
| 2009        | (\$4,065,000)  |
| 2010        | (\$4,349,000)  |

**All Funds, Five-Year Impact:**

| Fiscal Year | Probable Revenue<br>Gain/(Loss) from<br><i>GENERAL REVENUE<br/>FUND<br/>1</i> | Probable Revenue<br>Gain/(Loss) from<br><i>Cities</i> | Probable Revenue<br>Gain/(Loss) from<br><i>Transit Authorities</i> | Probable Revenue<br>Gain/(Loss) from<br><i>Counties/SPDs</i> |
|-------------|---|---|--|--|
| 2006        | (\$2,804,000)   | (\$370,000)   | (\$185,000)  | (\$185,000)  |
| 2007        | (\$3,541,000)   | (\$513,000)   | (\$256,000)  | (\$256,000)  |
| 2008        | (\$3,801,000)   | (\$538,000)   | (\$269,000)  | (\$269,000)  |
| 2009        | (\$4,065,000)   | (\$567,000)   | (\$283,000)  | (\$283,000)  |
| 2010        | (\$4,349,000)   | (\$608,000)   | (\$304,000)  | (\$304,000)  |

**Fiscal Analysis**

The bill would amend Section 151.0047(a) of the Tax Code to exclude certain improvements to real property from the definition of "real property repair and remodeling" under the sales tax.

Real property repair and remodeling services performed on an improvement that has a value of more than \$500,000, is used for nonindustrial commercial purposes, and is located inside the boundaries of the most populous city in a county in which two or more cities each with a population of 300,000 or more are located would be excluded from the definition, and, as such, exempted from the sales tax.

The bill would take effect October 1, 2005.

## **Methodology**

Based on the criteria specified in the bill, only improvements located inside the city of Fort Worth would be affected by the proposed sales tax exclusion.

Data on the value of real property repair and remodeling in Texas were gathered from the U.S. Census Bureau. The data were adjusted to reflect the labor component of taxable repair and remodeling services on nonindustrial commercial property within the city of Fort Worth (materials would remain taxable). The resulting value was multiplied by the state sales tax rate, adjusted for the effective date of October 1, 2005, and extrapolated through 2010. The fiscal impacts on units of local government were estimated based on the applicable tax rates in the affected jurisdictions.

## **Local Government Impact**

Affected units of local government (those whose boundaries are within the boundary of the City of Fort Worth) would have a corresponding fiscal impact from sales tax revenues, as indicated in the above table.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, SD, WP, SM