

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 4, 2007

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

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

IN RE: HB986 by Isett, Carl (Relating to an exemption from the sales and use tax for certain assessments and fees related to telecommunications services.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB986, As Introduced: a negative impact of (\$186,035,000) through the biennium ending August 31, 2009.

The table below assumes an effective date of September 1, 2007.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2008	(\$88,651,000)
2009	(\$97,384,000)
2010	(\$98,095,000)
2011	(\$98,803,000)
2012	(\$86,214,000)

All Funds, Five-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>Counties</i>	Probable Revenue Gain/(Loss) from <i>Transit Authorities</i>
2008	(\$88,651,000)	(\$13,853,000)	(\$648,000)	(\$2,717,000)
2009	(\$97,384,000)	(\$16,739,000)	(\$783,000)	(\$3,284,000)
2010	(\$98,095,000)	(\$16,861,000)	(\$789,000)	(\$3,308,000)
2011	(\$98,803,000)	(\$16,983,000)	(\$794,000)	(\$3,331,000)
2012	(\$86,214,000)	(\$14,819,000)	(\$693,000)	(\$2,907,000)

Fiscal Analysis

The bill would amend Section 151.007 of the Tax Code to exempt from the limited sales and use tax certain telecommunications assessments and fees that are passed through to purchasers.

The bill would exclude from the sales price of telecommunications services the following assessments and fees:

- 1) The utility gross receipts assessment imposed under Subchapter A, Chapter 16, Utilities Code;
- 2) The state universal service fund assessment imposed under Subchapter B, Chapter 56, Utilities Code;
- 3) The federal universal service fund charge;
- 4) The Telecommunications Infrastructure Fund (TIF) assessment imposed under Subchapter C,

Chapter 57, Utilities Code; and

5) Municipal franchise fees or right-of-way fees authorized under Chapter 283, Local Government Code.

The bill would take effect September 1, 2007.

Methodology

According to the Comptroller of Public Accounts, telecommunications services are taxable by the state and units of local government under Chapter 151 and Chapters 321 through 323 of the Tax Code. Telecommunications services taxed under Chapter 151 are also subject to the Telecommunications Infrastructure Fund (TIF) assessment under Section 57.043 of the Utilities Code. Under current law, the utility gross receipts assessment, state and federal universal service charges, the TIF assessment, and municipal franchise fees are included in the sales price of telecommunications services and are subject to state and local sales taxes. These assessments and fees are an expense to the company and are presumably recovered from purchasers either through separate line-item charges on bills or through inclusion in the price of the service.

The Comptroller reports that the bill would negatively affect state and local sales tax collections by excluding these assessments and fees from the taxable sales price of telecommunications services.

For the purpose of this estimate, the Comptroller gathered data from its tax files and data provided by the Public Utility Commission to determine the total amount of fees and assessments that would be excluded. The Comptroller assumed an implementation date of September 1, 2007 and extrapolated the estimated losses through fiscal 2012.

The Comptroller proportionally estimated the fiscal impacts on units of local government.

Note: The TIF assessment expires September 1, 2011.

Local Government Impact

The fiscal impact to local government is illustrated in the above tables.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, CT, SD, EB