LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 23, 2013

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3169** by Bohac (Relating to the imposition of the sales and use tax on taxable items sold or provided under certain contracts.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3169, As Passed 2nd House: a negative impact of ($9,500,000) through the biennium ending August 31, 2015.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	($4,400,000)
2015	($5,100,000)
2016	($5,500,000)
2017	($5,900,000)
2018	($6,300,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *General Revenue Fund* 1	Probable Revenue (Loss) from *Cities*	Probable Revenue (Loss) from *Transit Authorities*	Probable Revenue (Loss) from *Counties and Special District*
2014	($4,400,000)	($800,000)	($300,000)	($100,000)
2015	($5,100,000)	($900,000)	($300,000)	($200,000)
2016	($5,500,000)	($1,000,000)	($300,000)	($200,000)
2017	($5,900,000)	($1,100,000)	($400,000)	($200,000)
2018	($6,300,000)	($1,200,000)	($400,000)	($200,000)

Fiscal Analysis

The bill would amend Chapter 151, Tax Code, with respect to taxation of destination management services, health care supplies, and newspapers.

Section 151.0565(a)(1) would be amended to include transportation vehicle management, transportation, shuttle service services, and airport meet-and-greet services within the definition of destination management services and to strike from that definition the limitation that such services be provided under a qualified destination management services contract.

Section 151.0565(a)(2) would be amended: 1) to limit the definition of qualified destination management company to one that receives at least 80 percent of revenue from a combination of at least six destination management services; 2) to require that a qualified destination management company maintain a general liability insurance policy with a limit of at least $1 million; 3) to modify the requirement that at least 80 percent of the entity's clients be located outside this state to state that during the preceding tax year at least 80 percent of the entity's client contracts be for clients outside this state who were determined by a contracting entity outside this state or for clients from outside this state who were program attendees staying in a hotel in this state; 4) to delete the requirement that such a company spend at least one percent of its annual gross receipts to market the destinations with respect to which it provides services; 5) to clarify the prohibition of such a company from preparation or service of food or beverages; and 6) to prohibit such a company from operation of a venue at which events or activities for which destination management services are provided occur.

Subdivision (15) of Section 151.313(a) would be amended to expand the exemption of intravenous systems, supplies, and replacement parts used in the treatment of humans to include such items designed or intended to be used in diagnosis or treatment.

A new Subsection (e) of Section 151.313 would be added to expand the definition of "intravenous system" to include, regardless of whether the product is designed or intended to be inserted subcutaneously into any part of the body, a product designed or intended to be used to administer fluids, electrolytes, blood and blood products, or drugs to patients, or to withdraw tissue samples, blood, or fluids from patients.

A new Subsection (f) of Section 151.313 would be added to describe a "hospital bed" and to expand the definition to include a mattress, devices built into or designed for use with the bed, infant warmers, incubators, other beds for neonatal and pediatric patients, and beds specifically designed and marketed for use in the rest, recuperation, and treatment of obese patients, obstetric patients, and burn patients.

Section 151.319(f) would be amended to increase the limitation on the average sales price of a publication that meets the definition of "newspaper" from $1.50 to $3.00. Section 151.319(a) of this code exempts a newspaper from sales and use tax.

The bill would take effect September 1, 2013.

Methodology

The elimination of the requirement to market destinations and modification of other criteria for qualification as a destination managment company is not expected to significantly alter the set of affected entities, and shuttle services and airport meet-and-greet services are not taxable services. The amendments of Section 151.0565 accordingly would not have significant fiscal implications.

The Section 151.313 amendment of the definition of "intravenous system" would include some currently taxable items. Similarly, the amendment of the definition of "hospital bed" would include currently taxable items such as bed alarms, sheets, mattress pads, cushions, pillows, pillowcases, blankets, adjustable over bed tables, and trapeze bars. Estimates were developed from comptroller records on sales tax remittances from medical equipment suppliers, hospitals, clinics and offices of physicians, and audit experience.

The amount of sales tax revenue that may currently be collected from sales of newspapers with an average price between $1.50 and $3.00 cannot be determined, but is expected to be negligible.

Local Government Impact

There would be a corresponding loss of sales and use tax revenue to local taxing jurisdictions.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD