

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

**FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION**

**May 11, 2015**

**TO:** Honorable Jane Nelson, Chair, Senate Committee on Finance

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE: HB31** by Bonnen, Dennis (Relating to decreasing the state sales and use tax rate.), As Engrossed

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB31, As Engrossed: a negative impact of (\$2,310,909,000) through the biennium ending August 31, 2017.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

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

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	(\$840,711,000)
2017	(\$1,470,198,000)
2018	(\$1,550,198,000)
2019	(\$1,650,198,000)
2020	(\$1,760,198,000)

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

Fiscal Year	Probable Revenue (Loss) from <i>General Revenue Fund</i> 1	Probable Revenue (Loss) from <i>State Highway Fund</i> 6	Probable Revenue Gain from <i>Cities</i>	Probable Revenue Gain from <i>Transit Authorities</i>
2016	(\$840,000,000)	(\$1,200,000)	\$5,400,000	\$1,800,000
2017	(\$1,470,000,000)	(\$2,200,000)	\$9,800,000	\$3,300,000
2018	(\$1,550,000,000)	(\$2,200,000)	\$10,400,000	\$3,600,000
2019	(\$1,650,000,000)	(\$2,200,000)	\$11,100,000	\$3,800,000
2020	(\$1,760,000,000)	(\$2,200,000)	\$11,800,000	\$4,000,000

<b>Fiscal Year</b>	<b>Probable Revenue Gain from Counties and Special Districts</b>	<b>Probable (Cost) from General Revenue Fund 1</b>	<b>Change in Number of State Employees from FY 2015</b>
2016	\$1,000,000	(\$711,000)	3.0
2017	\$1,800,000	(\$198,000)	3.0
2018	\$1,900,000	(\$198,000)	3.0
2019	\$2,000,000	(\$198,000)	3.0
2020	\$2,200,000	(\$198,000)	3.0

## **Fiscal Analysis**

The bill would amend Section 151.051 of the Tax Code, to decrease the sales tax rate to 5.95 percent. The current rate is 6.25 percent.

The bill would also add Section 151.0511 to provide that on January 1 of an even-numbered year following a transfer of an any unencumbered balance from the General Revenue Fund to the Economic Stabilization Fund (ESF) under Section 49-g(b), Article III, Texas Constitution, the Comptroller is to adjust the rate of the sales and use tax to a rate, rounded to the nearest thousandth, estimated to reduce sales and use tax collections during the remainder of the biennium by an amount equal to 25 percent of unencumbered general revenues at the end of the preceding biennium that were not transferred to the ESF. In the event that 25 percent of unencumbered general revenues at the end of the preceding biennium not transferred to the ESF were in excess of the estimate of sales and use tax revenues for a biennium, the sales and use tax rate would be adjusted to zero.

The bill would also require the Comptroller to study the impact of the change in tax rate made by the bill, and what further reductions in the rate might be made following a review of existing exemptions from the sales and use tax, and report to the Legislature not later than December 31, 2016.

This bill would take effect January 1, 2016.

## **Methodology**

The forecasts of revenues for the limited sales and use tax in the *2016-17 Biennial Revenue Estimate* were adjusted for the rate change, extrapolated through 2020, and adjusted for the effective date. The decrease in tax rate would be expected to result in a marginal increase in expenditures on taxable items and thus marginal increases in local sales and use tax revenues.

The *2016-17 Biennial Revenue Estimate* does not anticipate any unencumbered balance in the General Revenue Fund at the end of fiscal 2015 or 2017, consequently the effect of the provision regarding a change in tax rate contingent on the amount of any such unencumbered balance cannot be estimated. It is to be noted, however, that as there is no provision for a change in rate made under the proposed Section 151.0511 to expire, any such reduction in tax rate would be permanent and would negatively affect tax collections in subsequent biennia.

The administrative cost estimate reflects the funds that would be necessary to hire three accounts examiner IIIs to address the increased number of unsupported credits, overpayments and exceptions that will occur due to the fluctuating sales and use tax rate. Based on the franchise tax rate change that went into effect in 2008, the agency experienced a 22 percent increase in overpayments, exceptions, unsupported credits and refund requests. The administrative cost

estimate also includes a one-time cost to hire contract staff to conduct a study on the impact of the tax rate reduction as well as to conduct a review of existing exemptions from the state sales and use tax by December 31, 2016. In addition, approximately 630,000 notices will need to be mailed to sales tax, direct pay, custom brokers, and maquiladora taxpayers at a cost of \$353,000 for printing and postage in fiscal 2016.

### **Local Government Impact**

The decrease in the state tax rate would be expected to result in a marginal increase in expenditures on taxable items and thus marginal increases in local sales and use tax revenues.

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

**LBB Staff:** UP, KK, SD