

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

**FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION**

**March 7, 2017**

**TO:** Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

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

**IN RE: HB105** by Metcalf (Relating to the exclusion of Internet access service from the sales and use tax.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB105, As Introduced: a negative impact of (\$391,600,000) through the biennium ending August 31, 2019.

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

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2018	\$0
2019	(\$391,600,000)
2020	(\$332,800,000)
2021	\$0
2022	\$0

**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 (Loss) from <i>Cities</i>	Probable Revenue (Loss) from <i>Transit Authorities</i>
2018	\$0	(\$352,200,000)	(\$67,500,000)	(\$23,300,000)
2019	(\$391,600,000)	\$0	(\$75,000,000)	(\$25,900,000)
2020	(\$332,800,000)	\$0	(\$63,800,000)	(\$22,100,000)
2021	\$0	\$0	\$0	\$0
2022	\$0	\$0	\$0	\$0

<b>Fiscal Year</b>	<b>Probable Revenue (Loss) from Counties &amp; Special Districts</b>
2018	(\$12,300,000)
2019	(\$13,600,000)
2020	(\$11,500,000)
2021	\$0
2022	\$0

### **Fiscal Analysis**

The bill would amend Chapter 151 of the Tax Code, regarding sales and use taxation of internet access service.

The bill would amend Subsection 151.0101(a) to strike internet access service from the definition of "taxable service", thus exempting such service from tax.

The bill would make a conforming amendment to Subsection 151.00394(b), and a conforming repeal of Section 151.325 which provides for exemption of only the first \$25 of a monthly charge for internet access service.

The bill would take effect September 1, 2017.

### **Methodology**

Data on the number of Texas households and businesses with broadband internet service and on average monthly prices for home internet access service, consumer mobile broadband service, and business broadband service was used to estimate total expenditures for internet access service. These estimates were reduced for the current exemption of the first \$25 of the monthly charge for such service, then extrapolated through 2020 in view of the expected rate of growth in the total number of Texas households.

Federal law (the Internet Tax Freedom Forever Act) prohibits state and local sales taxation of internet access service beginning June 30, 2020. Consequently, the exemption proposed by this bill is without consequence after that date.

The estimate for fiscal 2018 was adjusted for the effective date of the bill, and effects on units of local government were estimated proportionally.

### **Local Government Impact**

There would be a corresponding loss of local sales and use tax revenue from local taxing jurisdictions. The losses are displayed in the above table.

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

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