

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 15, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB350 by Canales (Relating to exempting textbooks purchased, used, or consumed by university and college students from the sales and use tax for limited periods.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB350, As Introduced: a negative impact of (\$52,500,000) through the biennium ending August 31, 2019.

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 | (\$51,700,000) | (\$9,900,000) | (\$3,400,000) |
| 2019 | (\$52,500,000) | \$0 | (\$10,000,000) | (\$3,500,000) |
| 2020 | (\$52,800,000) | \$0 | (\$10,100,000) | (\$3,500,000) |
| 2021 | (\$53,300,000) | \$0 | (\$10,200,000) | (\$3,500,000) |
| 2022 | (\$53,800,000) | \$0 | (\$10,300,000) | (\$3,600,000) |

| Fiscal Year | Probable Revenue (Loss) from <i>Counties and Special Districts</i> |
|-------------|--|
| 2018 | (\$1,800,000) |
| 2019 | (\$1,800,000) |
| 2020 | (\$1,800,000) |
| 2021 | (\$1,900,000) |
| 2022 | (\$1,900,000) |

The above table assumes an effective date of July 1, 2017. The below table assumes an effective date of October 1, 2017.

| Fiscal Year | Probable Revenue Gain/(Loss) from <i>General Revenue Fund</i> 1 | Probable Revenue Gain/(Loss) from <i>State Highway Fund</i> 6 | Probable Revenue Gain/(Loss) from <i>Cities</i> | Probable Revenue Gain/(Loss) from <i>Transit Authorities</i> |
|--------------------|--|--|--|---|
| 2018 | \$0 | (\$25,850,000) | (\$5,000,000) | (\$1,700,000) |
| 2019 | (\$52,200,000) | \$0 | (\$10,000,000) | (\$3,500,000) |
| 2020 | (\$52,800,000) | \$0 | (\$10,100,000) | (\$3,500,000) |
| 2021 | (\$53,300,000) | \$0 | (\$10,200,000) | (\$3,500,000) |
| 2022 | (\$53,800,000) | \$0 | (\$10,300,000) | (\$3,600,000) |

| Fiscal Year | Probable Revenue Gain/(Loss) from <i>Counties and Special Districts</i> |
|--------------------|--|
| 2018 | (\$900,000) |
| 2019 | (\$1,800,000) |
| 2020 | (\$1,800,000) |
| 2021 | (\$1,900,000) |
| 2022 | (\$1,900,000) |

Fiscal Analysis

The bill would amend Chapter 151 of the Tax Code by adding Section 151.3212 to provide for the exemption from the sales and use tax of books written, designed, and produced for educational, instructional, or pedagogical purposes, when purchased by a student enrolled at a Texas institution of higher education. The sale would take place within a seven-day period each August and January, as designated by the Comptroller, when the greatest number of books is likely to be purchased.

A person would establish eligibility for the exemption by presenting a valid student identification card. The Comptroller would by rule prescribe electronic means for establishing eligibility for online purchases.

The bill would take effect July 1, 2017, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect October 1, 2017.

Methodology

The following data were used to estimate college students spending on textbooks: higher education student enrollment and characteristics data from the Texas Higher Education Coordinating Board, and average annual college student expenditures for required course materials from the National Association of College Stores. Estimated book sales were adjusted for the exemption period, multiplied by the sales tax rate, adjusted for potential effective dates for the bill of July 1, 2017 and October 1, 2017, and extrapolated through fiscal 2022.

If the bill were to take effect immediately, student textbooks would be eligible for exemption during the August 2017 tax holiday. In the event the bill fails to take immediate effect, the first exemption period would be in January 2018.

Pursuant to Proposition 7 (2015), any sales tax collections in excess of \$28 billion and less than \$30.5 billion will be deposited into the State Highway Fund. Because total 2018 collections are

projected to fall in that range, the 2018 revenue loss is from the State Highway Fund instead of General Revenue.

Local Government Impact

There would be a corresponding loss of sales and tax revenue from units of local government. The estimated losses are displayed in the above tables.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD