

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

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

**March 21, 2017**

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

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

**IN RE: HB589** by Bohac (Relating to a sales tax exemption for certain items sold during a limited period.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB589, As Introduced: a negative impact of (\$54,700,000) through the biennium ending August 31, 2019. Additionally, if the bill were to take immediate effect there would be a negative impact of (\$52,300,000) to the State Highway Fund 6 in Fiscal Year 2018. Otherwise, the first impact would occur to General Revenue in Fiscal Year 2019.

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

Fiscal Year	Probable Revenue (Loss) from <i>General Revenue Fund</i> <b>1</b>	Probable Revenue (Loss) from <i>State Highway Fund</i> <b>6</b>	Probable Revenue (Loss) from <i>Cities</i>	Probable Revenue (Loss) from <i>Transit Authorities</i>
2018	\$0	(\$52,300,000)	(\$10,000,000)	(\$3,500,000)
2019	(\$54,700,000)	\$0	(\$10,500,000)	(\$3,600,000)
2020	(\$57,200,000)	\$0	(\$11,000,000)	(\$3,800,000)
2021	(\$59,700,000)	\$0	(\$11,400,000)	(\$4,000,000)
2022	(\$62,400,000)	\$0	(\$12,000,000)	(\$4,100,000)

Fiscal Year	Probable Revenue (Loss) from <i>Counties and Special Districts</i>
2018	(\$1,800,000)
2019	(\$1,900,000)
2020	(\$2,000,000)
2021	(\$2,100,000)
2022	(\$2,200,000)

The above table assumes the bill takes effect immediately. The table below assumes the bill takes effect on September 1, 2017.

<b>Fiscal Year</b>	<b>Probable Revenue (Loss) from <i>General Revenue Fund</i> 1</b>	<b>Probable Revenue (Loss) from <i>State Highway Fund</i> 6</b>	<b>Probable Revenue (Loss) from <i>Cities</i></b>	<b>Probable Revenue (Loss) from <i>Transit Authorities</i></b>
2018	\$0	\$0	\$0	\$0
2019	(\$54,700,000)	\$0	(\$10,500,000)	(\$3,600,000)
2020	(\$57,200,000)	\$0	(\$11,000,000)	(\$3,800,000)
2021	(\$59,700,000)	\$0	(\$11,400,000)	(\$4,000,000)
2022	(\$62,400,000)	\$0	(\$12,000,000)	(\$4,100,000)

<b>Fiscal Year</b>	<b>Probable Revenue (Loss) from <i>Counties and Special Districts</i></b>
2018	\$0
2019	(\$1,900,000)
2020	(\$2,000,000)
2021	(\$2,100,000)
2022	(\$2,200,000)

## **Fiscal Analysis**

The bill would amend Chapter 151 of the Tax Code, relating to sales tax exemptions for certain items sold during a limited time period.

The bill would amend Sections 151.326 and 151.327 to increase the limit on the price of an item of clothing or footwear, and school supply or school backpack eligible for tax exemption during the Texas back-to-school sales tax holiday, from \$100 to \$200.

The bill would add new Section 151.3271 to exempt from tax an e-reader, personal computer, and tablet computer during the sales tax holiday period provided by Sec. 151.326(a)(2), provided the purchase is not over the internet. A "personal computer" would be defined as a laptop, desktop, tower computer system, or other personal computer that includes a central processing unit, random access memory, a storage device, a display monitor, and a keyboard, and consequently could include devices not typically referred to as a personal computer, such as a smart phone.

This bill would take effect immediately if it receives the requisite two-thirds vote of the membership of each house of the Legislature, otherwise it would take effect September 1, 2017.

## **Methodology**

Product listings by general retailers for items of clothing, footwear, school supplies and backpacks were examined to verify that significant numbers of such items are typically offered for sale at prices from \$100 to \$200. As most of such product offerings geared to students price below \$100, it was assumed that increasing the per item price limit from \$100 to \$200 would probably result in a moderate increase in tax exempt purchases of such items -- thus the fiscal impact of the increase in the price limit was estimated as equal to 15 percent of the cost of the current sales tax holiday as implicit in the 2018-2019 *Biennial Revenue Estimate* and estimated in the 2017 edition of the *Tax Exemption and Tax Incidence* study.

Industry data on annual revenues from the sale of consumer electronics were apportioned to the

state based on personal income, and reduced to estimate revenues from the sale of electronic devices not sold online. The result was reduced for the limited exemption period, multiplied by the sales tax rate, adjusted for potential effective dates for the bill of July 1, 2017 and September 1, 2017, and extrapolated through fiscal 2022. Implications for units of local government were estimated proportionally.

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 in the scenario where the bill takes immediate effect.

If the bill were to take effect immediately, items of clothing, footwear, school supplies and backpacks, and electronics, 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 August 2018.

### **Local Government Impact**

There would be a proportional loss of sales and use 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