

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

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

**April 11, 2017**

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

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

**IN RE: HB4052** by Murphy (Relating to the exemption of certain services performed by certain employees from the sales and use tax.), **As Introduced**

**The extent to which future tax revenue might decline, should evolving litigation expand the applicability of the exemption for services performed by an employee for an employer to the provision of otherwise taxable services, is unknown. Therefore, the clarification of statute provided by the bill could prevent a future loss of sales and use tax revenue resulting from the outcome of litigation.**

The bill would amend Chapter 151 of the Tax Code, regarding sales and use taxation of certain services performed by employees.

Section 151.057 would be transferred from Subchapter C to Subchapter H and be redesignated as Section 151.3503.

Section 151.3503 provides for exemption of services performed by employees for employers. The section would be amended to add conditions that must be met if otherwise taxable services performed by an employee of a temporary employment service to an employer (a client of the temporary employment service) are to be exempt as services performed by an employee for an employer.

The additional conditions are 1) that in meeting the requirement that the employer provide all supplies and equipment necessary to perform the service, the employer does not rent, lease, purchase or otherwise acquire the necessary supplies and equipment from the temporary employment service or an affiliate of the temporary employment service; and 2) that the temporary employment service not be a member of the employer's affiliated group. "Affiliated group" would have the meaning assigned by Section 171.0001 of this code, which means a group of one or more entities with more than 50 percent ownership by a common owner or owners.

The requirement that the temporary employee be subject to the supervision of the employer to whom the employee is furnished would also be modified. The requirement that the supervision be "direct or general" would be struck, and a new Subsection (c) would be added to require that the supervision be such that the employer has the sole right to direct and control the employee to conduct the employer's business or to comply with any licensing, statutory, or regulatory requirement applicable to the employer.

The bill addresses issues that have been the subject of litigation (Allstate Ins. Co. v. Hegar, NO. 03-13-00341-CV). The bill would add clarity to statute regarding when services provided by a

temporary employment service qualify for exemption as services provided by an employee for an employer, in conformity with the state's position. The extent to which future tax revenue might decline, should evolving litigation expand the applicability of the exemption for services performed by an employee for an employer to the provision of otherwise taxable services, is unknown.

The bill would take effect September 1, 2017.

**Local Government Impact**

The bill could prevent a future loss of local taxing jurisdictions sales and use tax revenue resulting from the outcome of litigation.

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

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