

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 29, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB1083 by Perry (relating to the applicability of the sales and use tax to certain insurance services.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1083, Committee Report 1st House, Substituted: a negative impact of (\$3,000,000) 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	(\$3,000,000)
2020	(\$3,400,000)
2021	(\$3,700,000)
2022	(\$4,000,000)

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 Savings/(Cost) from <i>Cities</i>	Probable Savings/(Cost) from <i>Transit Authorities</i>
2018	\$0	(\$2,000,000)	(\$380,000)	(\$130,000)
2019	(\$3,000,000)	\$0	(\$570,000)	(\$200,000)
2020	(\$3,400,000)	\$0	(\$650,000)	(\$230,000)
2021	(\$3,700,000)	\$0	(\$710,000)	(\$250,000)
2022	(\$4,000,000)	\$0	(\$770,000)	(\$260,000)

Fiscal Year	Probable Savings/(Cost) from Counties and Special Districts
2018	(\$70,000)
2019	(\$100,000)
2020	(\$120,000)
2021	(\$130,000)
2022	(\$140,000)

Fiscal Analysis

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

Section 151.0039 would be amended to exclude from the definition of "insurance service", and thus from taxability, a service performed by a licensed certified public accountancy firm, or on behalf of the firm by an owner, employee, or affiliate of the firm, if less than one percent of the firm's total revenue in the prior calendar year is from services that otherwise constitute insurance service.

This bill would take effect January 1, 2018.

Methodology

Because an affiliate of a certified public accountancy firm is a legal entity distinct from the firm, the revenue of an affiliate would not be part of the total revenue of the CPA firm and thus not be part of the *de minimus* one percent of revenue test proposed by the bill for exclusion of certain insurance services from taxability. Consequently, a CPA firm could create or acquire an insurance service firm (of potentially unlimited size) that would be authorized to sell nontaxed insurance services that would be taxable if sold by an insurance service provider not affiliated with a CPA firm. This fiscal estimate assumes that the opportunity established by the bill to sell taxable insurance services on a nontaxable basis would result in declines in tax collections from providers of insurance services subject to tax.

The fiscal implications were estimated based on Comptroller data for sales tax remittances from providers of taxable insurance services.

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 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