

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

**FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION**

**April 23, 2019**

**TO:** Honorable Dustin Burrows, Chair, House Committee on Ways & Means

**FROM:** John McGeady, Assistant Director    Sarah Keyton, Assistant Director  
 Legislative Budget Board

**IN RE:** **HB385** 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 HB385, As Introduced: a negative impact of (\$54,900,000) through the biennium ending August 31, 2021, if the bill takes immediate effect; or a negative impact of (\$28,100,000) through the biennium ending August 31, 2021, if the effective date of the bill is September 1, 2019.

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

Fiscal Year	Probable Revenue (Loss) from <i>General Revenue Fund 1</i>	Probable Revenue (Loss) from <i>Cities</i>	Probable Revenue (Loss) from <i>Transit Authorities</i>	Probable Revenue (Loss) from <i>Counties and Special Districts</i>
2020	(\$26,800,000)	(\$4,970,000)	(\$1,700,000)	(\$1,000,000)
2021	(\$28,100,000)	(\$5,210,000)	(\$1,790,000)	(\$1,050,000)
2022	(\$29,400,000)	(\$5,450,000)	(\$1,870,000)	(\$1,100,000)
2023	(\$30,900,000)	(\$5,730,000)	(\$1,960,000)	(\$1,160,000)
2024	(\$32,300,000)	(\$5,980,000)	(\$2,050,000)	(\$1,210,000)

The table above assumes the bill takes immediate effect. The table below assumes the effective date of the bill is September 1, 2019.

Fiscal Year	Probable Revenue Gain from <i>General Revenue Fund 1</i>	Probable Revenue Gain from <i>Cities</i>	Probable Revenue Gain from <i>Transit Authorities</i>	Probable Revenue Gain from <i>Counties and Special Districts</i>
2020	\$0	\$0	\$0	\$0
2021	(\$28,100,000)	(\$5,210,000)	(\$1,790,000)	(\$1,050,000)
2022	(\$29,400,000)	(\$5,450,000)	(\$1,870,000)	(\$1,100,000)
2023	(\$30,900,000)	(\$5,730,000)	(\$1,960,000)	(\$1,160,000)
2024	(\$32,300,000)	(\$5,980,000)	(\$2,050,000)	(\$1,210,000)

**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 Section 151.326 (a) 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 also add new Section 151.3271 to exempt from tax an e-reader, a personal computer, and a tablet computer during the sales tax holiday period provided by Sec. 151.326(a)(2), provided the sales price is less than \$750 and 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. The bill would exclude smartphones and gaming consoles from the sales tax exemption.

The bill would take effect immediately upon enactment, assuming it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2019.

### **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 *2020-2021 Biennial Revenue Estimate* and estimated in the 2019 edition of the *Tax Exemption and Tax Incidence* study.

Industry data on annual revenues from the sale of consumer electronics eligible for the exemption 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, 2019 and September 1, 2019, and extrapolated through fiscal 2024.

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 2019 tax holiday. In the event the bill fails to take immediate effect, the first exemption period would be in August 2020.

### **Local Government Impact**

There would be a proportional loss of sales and use tax revenue from units of local government.

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

**LBB Staff:** WP, KK, SD