

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

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

**February 26, 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: HB705** by Geren (Relating to the substitution of a county sales and use tax for all or a portion of property taxes imposed by the county; authorizing the imposition of a tax.), **As Introduced**

**The fiscal implications of the bill cannot be determined at this time because the number and timing of county adoptions of sales taxes under provisions of the bill is unknown. The bill could potentially reduce state tax revenue by a significant amount.**

The bill would add Chapter 328 to Subtitle C, Title 3, Tax Code, to provide for adoption of county sales and use tax for the purpose of county property tax reduction. Chapter 328 would provide authority for any county to adopt a sales and use tax at a rate of one percent at an election held in the county.

The rate of tax imposed under the chapter would be excluded from determination of the combined or overlapping rate in any area of local sales and use taxes under Subtitle C or other law. Imposition of tax under Chapter 328 would thus not be subject to provisions that limit the combined local sales and use tax rate to 2 percent.

An election under the chapter would be held on the next uniform election date that occurs after adoption of an election order by a county commissioners court. The adoption of the tax would take effect on the next January 1 that is at least six months after the date the comptroller receives notice of the results of the election.

Any amount of revenue derived by a county from the tax under the chapter would be additional sales and use tax for purposes of Section 26.041, which requires reduction of the effective tax rate and rollback rate of a property taxing unit that adopts an additional sales and use tax for property tax rate reduction.

The bill would take effect September 1, 2019, with the exception that provisions regarding property taxes would take effect January 1, 2020 and apply only to property taxes imposed for a property tax year that begins on or after January 1, 2020.

As the number and timing of county adoptions of sales taxes under provisions of the bill is not known, the fiscal implications of the bill cannot be estimated. To the extent that an additional one percent in sales tax levy would result in reduced spending on taxable items, there would be a negative effect on state sales tax revenue. As an illustrative example, if an additional 1 percent sales tax rate was adopted by all counties effective for 2021, state sales tax revenue would be

reduced by approximately \$400 million.

### **Local Government Impact**

To the extent that an additional one percent in sales tax levy would result in reduced spending on taxable items, there would be a negative effect on local sales tax revenue for taxing units other than the adopting counties.

As an illustrative example, an additional 1 percent sales tax rate if adopted by all counties, effective for 2021, would yield approximately \$5.6 billion county revenue in the aggregate.

Compared with projected aggregate county property tax levies for 2021 of \$11.2 billion, additional county sales tax could provide for an average reduction of county property tax levies of 50 percent. However, sales taxable activity and taxable property value are not closely correlated; the ratio of sales tax base to property tax base varies substantially by county. Consequently, the amount of property tax replacement that could be financed with a 1 percent sales tax could be substantially more or less than half in any particular county.

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

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