

By: White

H.B. No. 304

A BILL TO BE ENTITLED

1 AN ACT
2 relating to the repeal of or limitations on certain state and local
3 taxes, including school district maintenance and operations ad
4 valorem taxes, the enactment of state and local value added taxes,
5 and related school finance and administration reform; imposing
6 taxes.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

8 ARTICLE 1. STATE VALUE ADDED TAX

9 SECTION 1.01. DEFINITIONS. In this article:

10 (1) "Input tax" means the aggregate amount of all
11 state and local value added taxes imposed under this Act that have
12 accrued with respect to services and property supplied to a
13 taxpayer during a calendar quarter and used or held for use by the
14 taxpayer in the ordinary course of the taxpayer's trade or
15 business.

16 (2) "Output tax" means the aggregate amount of all
17 state and local value added taxes imposed under this Act that have
18 accrued with respect to services and property supplied by a
19 taxpayer during a calendar quarter in the ordinary course of the
20 taxpayer's trade or business.

21 (3) "Taxpayer" means a person on whom the value added
22 tax is imposed.

23 (4) "Value added tax" means the tax imposed under
24 Section 1.02 of this article.

1 SECTION 1.02. VALUE ADDED TAX IMPOSED. A value added tax is
2 imposed on each person in this state who supplies any service or
3 property in the ordinary course of a trade or business in which the
4 person engages for profit.

5 SECTION 1.03. RATE OF TAX. The rate of the value added tax
6 is 6.72 percent of the taxpayer's taxable receipts from the supply
7 of services or property.

8 SECTION 1.04. DETERMINATION OF TAX PAYABLE. The total
9 amount of state and local value added taxes under this Act payable
10 by a taxpayer for a calendar quarter is the amount, if any, by which
11 the taxpayer's output tax exceeds the taxpayer's input tax.

12 SECTION 1.05. EXEMPTIONS. (a) The comptroller by rule
13 shall exempt from the value added tax:

- 14 (1) small businesses;
15 (2) governmental entities; and
16 (3) religious, educational, and public service
17 organizations.

18 (b) The comptroller shall refund the amount of any input tax
19 that has been accrued by an entity exempt under Subsection (a) of
20 this section.

21 SECTION 1.06. EXCLUSIONS. The comptroller by rule shall
22 exclude the following services and property from the value added
23 tax:

- 24 (1) monetary instruments, financial assets, and
25 investments;
26 (2) intercompany services;
27 (3) employment services;

- 1 (4) incidental transactions;
- 2 (5) transfers of common interests in property;
- 3 (6) services and property taxed by other law,
- 4 including Chapters 201 and 202, Tax Code; and
- 5 (7) services and property this state is prohibited
- 6 from taxing by federal law or the Texas Constitution.

7 SECTION 1.07. RULES. The comptroller shall adopt all rules
8 necessary to implement, administer, and enforce the state value
9 added tax and all local value added taxes under this Act.

10 SECTION 1.08. DISPOSITION OF REVENUE. All proceeds from
11 the collection of the value added tax shall be deposited to the
12 credit of the general revenue fund.

13 SECTION 1.09. EFFECTIVE DATE OF ARTICLE. This article
14 takes effect January 1, 2026.

15 ARTICLE 2. LOCAL VALUE ADDED TAXES

16 SECTION 2.01. LOCAL SALES AND USE TAXES PROHIBITED.
17 Notwithstanding any other law, a political subdivision may not
18 impose a sales or use tax on or after the effective date of this
19 article.

20 SECTION 2.02. LOCAL VALUE ADDED TAXES. (a) A political
21 subdivision that was authorized to impose a sales and use tax
22 immediately before the effective date of this article may impose a
23 local value added tax on and after the effective date of this
24 article.

25 (b) A local value added tax is administered, collected, and
26 enforced by the comptroller in the same manner as the state value
27 added tax. The tax applies to the supply of services or property in

1 the territory of the political subdivision.

2 (c) The comptroller shall allocate and remit to each
3 appropriate taxing jurisdiction proceeds from the collection of
4 local value added taxes by the comptroller.

5 SECTION 2.03. RATES OF LOCAL VALUE ADDED TAXES. (a) The
6 combined rate of all local value added taxes may not exceed two
7 percent at any location in the territory of a political
8 subdivision.

9 (b) The maximum combined rate provided by Subsection (a) of
10 this section does not apply to or include a school district
11 enrichment value added tax under Article 3 of this Act.

12 (c) On the effective date of this article, a political
13 subdivision may begin imposing the local value added tax at a rate
14 not to exceed the rate at which the political subdivision imposed a
15 sales and use tax immediately before the effective date of this
16 article. Subject to Subsection (a) of this section, the governing
17 body of a political subdivision that imposes a local value added tax
18 may adopt an order or ordinance changing the rate of or repealing
19 the tax imposed by the political subdivision.

20 SECTION 2.04. EFFECTIVE DATE OF ARTICLE. This article
21 takes effect January 1, 2026.

22 ARTICLE 3. SCHOOL DISTRICT ENRICHMENT VALUE ADDED TAX

23 SECTION 3.01. TAX AUTHORIZED. (a) A school district may
24 adopt or repeal a school district enrichment value added tax at an
25 election in which a majority of the qualified voters of the school
26 district approve the adoption or repeal of the tax.

27 (b) A school district enrichment value added tax is

1 administered, collected, and enforced by the comptroller in the
2 same manner as the state value added tax. The tax applies to the
3 supply of services or property in the territory of the school
4 district.

5 SECTION 3.02. MAXIMUM RATE. The rate of the school district
6 enrichment value added tax may not exceed 0.5 percent.

7 SECTION 3.03. USE OF TAX REVENUE BY SCHOOL DISTRICT. (a)
8 Revenue from the school district enrichment value added tax is for
9 the use and benefit of the school district. The revenue must be
10 used exclusively for school enrichment facilities and activities
11 and for the payment of the principal of and interest on debt
12 incurred to fund school enrichment facilities and activities.

13 (b) Revenue from the school district enrichment value added
14 tax may not be used for an expenditure or investment that is:

15 (1) necessary to comply with the legislature's duty
16 under Section 1, Article VII, Texas Constitution, to provide for
17 the general diffusion of knowledge and an efficient system of
18 public schools, including by providing funding for instructional
19 facilities; and

20 (2) eligible for funding through the Foundation School
21 Program.

22 SECTION 3.04. PLEDGE OF REVENUE. A school district may
23 pledge a portion of the revenue from the school district enrichment
24 value added tax for the payment of obligations issued to pay all or
25 part of the cost of a school enrichment project in the school
26 district.

27 SECTION 3.05. EFFECTIVE DATE OF ARTICLE. This article

1 takes effect January 1, 2026, but only if Section 4.01 of this Act
2 takes effect. If Section 4.01 of this Act does not take effect,
3 this article has no effect.

4 ARTICLE 4. SCHOOL DISTRICT MAINTENANCE AND OPERATIONS AD VALOREM
5 TAXES

6 SECTION 4.01. PROHIBITION ON IMPOSITION OF SCHOOL DISTRICT
7 MAINTENANCE AND OPERATIONS AD VALOREM TAXES. (a) Notwithstanding
8 any other law, a school district may not impose an ad valorem tax
9 for maintenance and operations purposes on or after January 1,
10 2026. To the extent of a conflict, this section controls over a
11 conflicting provision in a general or special law.

12 (b) The change in law made by this section does not affect
13 tax liability accruing before the effective date of this section.

14 (c) This section takes effect January 1, 2026, but only if
15 on or before that date a constitutional amendment to prohibit a
16 school district from imposing an ad valorem tax for maintenance and
17 operations purposes is approved by the voters. If such a
18 constitutional amendment is not approved by the voters on or before
19 that date, this section has no effect.

20 SECTION 4.02. REPORT. (a) The comptroller shall prepare a
21 report that recommends any change in constitutional or statutory
22 law needed to implement this Act.

23 (b) Not later than December 1, 2022, the comptroller shall
24 submit to the governor, lieutenant governor, speaker of the house
25 of representatives, and members of the legislature the report
26 required by Subsection (a) of this section.

27 (c) This section expires January 1, 2023.

1 SECTION 4.03. EFFECTIVE DATE OF ARTICLE. Except as
2 otherwise provided by this article, this article takes effect on
3 the 91st day after the last day of the legislative session.

4 ARTICLE 5. SCHOOL FINANCE

5 SECTION 5.01. FOUNDATION SCHOOL PROGRAM FUNDING. (a)
6 Beginning with the 2026-2027 school year, the legislature shall
7 appropriate money to fund the Foundation School Program under
8 Chapter 48, Education Code, in an amount, excluding money collected
9 by a school district through the imposition of a tax, necessary to:

10 (1) comply with the legislature's duty under Section
11 1, Article VII, Texas Constitution, to provide for the general
12 diffusion of knowledge and an efficient system of public schools;

13 (2) achieve the state policy under Section 48.001,
14 Education Code, and the purposes of the Foundation School Program
15 under Section 48.002, Education Code;

16 (3) provide the basic allotment under Section 48.051,
17 Education Code, in an amount of at least \$6,160 per student in
18 average daily attendance; and

19 (4) provide a minimal level of revenue to provide
20 school districts an opportunity to pursue locally funded enrichment
21 programs.

22 (b) This section takes effect January 1, 2026, but only if
23 Section 4.01 of this Act takes effect. If Section 4.01 of this Act
24 does not take effect, this section has no effect.

25 SECTION 5.02. EFFECT OF PROHIBITION ON SCHOOL DISTRICT
26 MAINTENANCE AND OPERATIONS TAX. (a) Article 4 of this Act does not
27 affect the authority of a school district to impose an enrichment

1 value added tax at a rate not to exceed 0.5 percent in accordance
2 with Article 3 of this Act for the purpose of providing additional
3 revenue to enrich the educational opportunities of students
4 enrolled in the district. The revenue attributable to the tax
5 described by this subsection is in addition to any money the
6 district receives from the state.

7 (b) A reference in the Education Code, the Tax Code, or any
8 other law to a school district's authority to impose a maintenance
9 tax or a maintenance and operations tax may not be construed in a
10 manner inconsistent with Article 4 of this Act or this section.

11 (c) This section takes effect January 1, 2026, but only if
12 Section 4.01 of this Act takes effect. If Section 4.01 of this Act
13 does not take effect, this section has no effect.

14 SECTION 5.03. STATE ASSISTANCE FOR TRANSITION TO SCHOOL
15 DISTRICT ENRICHMENT VALUE ADDED TAX. (a) For purposes of budgeting
16 for and funding of maintenance and operations and enrichment, the
17 commissioner of education shall assist school districts in
18 transitioning from the use of maintenance and operations tax
19 revenue to the use of state funding and enrichment value added tax
20 revenue.

21 (b) Not later than March 1, 2026, each school district shall
22 prepare and submit to the commissioner of education a transition
23 report certified by the comptroller that provides for the following
24 10 state fiscal years estimates regarding:

- 25 (1) budgets;
- 26 (2) sources of funding; and
- 27 (3) operating and capital expenditures.

1 (c) In the transition report prepared under Subsection (b)
2 of this section, a school district shall, in accordance with the
3 policy and purposes described by Sections 48.001 and 48.002,
4 Education Code, classify as "foundational" or "enrichment":

5 (1) each projected operating and capital expenditure
6 and the proportion of each current and projected debt; and

7 (2) the proportional amounts of current and projected
8 debts, based on the proposed uses for the revenue.

9 (d) Based on school districts' reports under Subsection (b)
10 of this section, the commissioner of education shall prepare and
11 present to the comptroller recommendations for refunding,
12 redeeming, or amending outstanding bonds for which school districts
13 pledged maintenance and operations tax revenue for payment.

14 (e) Notwithstanding any other law, the commissioner of
15 education shall provide state funding for the payment of any bonds
16 classified by a school district as a "foundational" bond under
17 Subsection (c) of this section. A school district assumes full
18 financial responsibility for any bond classified as an "enrichment"
19 bond.

20 (f) The commissioner of education shall annually prepare
21 and provide a report to the legislature and the comptroller
22 regarding funding under the Foundation School Program and the
23 transition by school districts to imposing a value added enrichment
24 tax. The report must include recommendations for legislative
25 action to facilitate the funding transitions required under this
26 Act while maintaining and improving the efficiency, quality, and
27 results of public education in this state.

1 (g) Subsection (e) of this section takes effect January 1,
2 2026, but only if Section 4.01 of this Act takes effect. If Section
3 4.01 of this Act does not take effect, Subsection (e) of this
4 section has no effect.

5 SECTION 5.04. EFFECTIVE DATE OF ARTICLE. Except as
6 otherwise provided by this article, this article takes effect on
7 the 91st day after the last day of the legislative session.

8 ARTICLE 6. REPEALED PROVISIONS

9 SECTION 6.01. TAX CODE. (a) The following provisions of
10 the Tax Code are repealed:

- 11 (1) Chapter [142](#);
- 12 (2) Subtitles E, F, G, H, I, and J, Title 2; and
- 13 (3) Subtitle C, Title 3.

14 (b) The repeal of a provision by this section does not
15 affect tax liability accruing before the effective date of this
16 article. That liability continues in effect as if this article had
17 not been enacted, and the former law is continued in effect for the
18 collection of taxes due and for civil and criminal enforcement of
19 the liability for those taxes.

20 SECTION 6.02. EDUCATION CODE. (a) The following
21 provisions of the Education Code are repealed:

- 22 (1) Sections [45.0032](#), [48.255](#), [48.2551](#), [48.2552](#),
23 [48.2553](#), [48.256](#), [48.257](#), and [48.275](#); and
- 24 (2) Chapter [49](#).

25 (b) This section takes effect only if Section 4.01 of this
26 Act takes effect. If Section 4.01 of this Act does not take effect,
27 this section has no effect.

H.B. No. 304

1 SECTION 6.03. EFFECTIVE DATE OF ARTICLE. Except as
2 otherwise provided by this article, this article takes effect
3 January 1, 2026.