

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

**FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION**

**May 1, 2021**

**TO:** Honorable Morgan Meyer, Chair, House Committee on Ways & Means

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB406** by Hernandez (Relating to exempting textbooks purchased, used, or consumed by university and college students from sales and use taxes for limited periods.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB406, As Introduced : a negative impact of (\$58,200,000) through the biennium ending August 31, 2023, if the effective date of the bill is July 1, 2021; or a negative impact of (\$43,500,000) through the biennium ending August 31, 2023, if the effective date of the bill is October 1, 2021.

Additionally, the bill will have a direct impact of a revenue loss to the Tax Reduction and Excellence in Education Fund of (\$4,720,000) for the 2022-23 biennium if the effective date of the bill is July 1, 2021; or of (\$3,530,000) for the 2022-23 biennium if the effective date of the bill is October 1, 2021. Any loss to the Tax Reduction and Excellence in Education must be made up with an equal amount of General Revenue to fund the Foundation School Program.

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

<i>Fiscal Year</i>	<b>Probable Revenue (Loss) from General Revenue Fund 1</b>	<b>Probable Revenue (Loss) from Tax Reduc. &amp; Excell. Edu. Fund 305</b>	<b>Probable Revenue (Loss) from Cities</b>	<b>Probable Revenue (Loss) from Transit Authorities</b>
2022	(\$29,400,000)	(\$2,380,000)	(\$5,830,000)	(\$1,960,000)
2023	(\$28,800,000)	(\$2,340,000)	(\$5,720,000)	(\$1,920,000)
2024	(\$28,230,000)	(\$2,290,000)	(\$5,600,000)	(\$1,880,000)
2025	(\$27,670,000)	(\$2,240,000)	(\$5,490,000)	(\$1,840,000)
2026	(\$27,110,000)	(\$2,200,000)	(\$5,380,000)	(\$1,810,000)

<i>Fiscal Year</i>	<b>Probable Revenue (Loss) from Counties &amp; Special Districts</b>
2022	(\$1,270,000)
2023	(\$1,240,000)
2024	(\$1,220,000)
2025	(\$1,200,000)
2026	(\$1,170,000)

The tables above assume an effective date of July 1, 2021. The tables below assume an effective date of October 1, 2021.

<i>Fiscal Year</i>	<i>Probable Revenue (Loss) from General Revenue Fund 1</i>	<i>Probable Revenue (Loss) from Tax Reduc. &amp; Excell. Edu. Fund 305</i>	<i>Probable Revenue (Loss) from Cities</i>	<i>Probable Revenue (Loss) from Transit Authorities</i>
2022	(\$14,700,000)	(\$1,190,000)	(\$2,920,000)	(\$980,000)
2023	(\$28,800,000)	(\$2,340,000)	(\$5,720,000)	(\$1,920,000)
2024	(\$28,230,000)	(\$2,290,000)	(\$5,600,000)	(\$1,880,000)
2025	(\$27,670,000)	(\$2,240,000)	(\$5,490,000)	(\$1,840,000)
2026	(\$27,110,000)	(\$2,200,000)	(\$5,380,000)	(\$1,810,000)

<i>Fiscal Year</i>	<i>Probable Revenue (Loss) from Counties &amp; Special Districts</i>
2022	(\$640,000)
2023	(\$1,240,000)
2024	(\$1,220,000)
2025	(\$1,200,000)
2026	(\$1,170,000)

**Fiscal Analysis**

The bill would amend Chapter 151 of the Tax Code by adding Section 151.3211 to provide for the exemption from the sales and use tax of books written, designed, and produced for educational, instructional, or pedagogical purposes, when purchased by a student enrolled at a Texas institution of higher education or a Texas private or independent college or university. To qualify for the exemption the sale would have to take place within a seven-day period each August and January, as designated by the Comptroller, when the greatest number of books is likely to be purchased.

A person would establish eligibility for the exemption by presenting a valid student identification card. The Comptroller would by rule prescribe electronic means for establishing eligibility for online purchases.

The bill would take effect July 1, 2021, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect October 1, 2021.

**Methodology**

The Comptroller indicates that the following data were used to estimate college students spending on textbooks: higher education student enrollment, characteristics data from the Texas Higher Education Coordinating Board, and average annual college student expenditures for required course materials from the National Association of College Stores. Estimated book sales were adjusted for the exemption period, multiplied by the sales tax rate, adjusted for potential effective dates for the bill of July 1, 2021 and October 1, 2021, and extrapolated through fiscal 2026.

In recent years, per student expenditures on textbooks have been declining as lower cost substitutes such as textbook rentals and downloads of free course materials have become increasingly available, and these estimates assume continuation of that trend.

If the bill were to take effect immediately, student textbooks would be eligible for exemption during a seven day period designated by the Comptroller in August 2021. In the event the bill fails to take immediate effect, the first exemption period would be in January 2022.

**Local Government Impact**

There would be a proportional loss of sales and use tax revenue from units of local government, estimated in the above tables.

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

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