



Carole Keeton Strayhorn
Texas Comptroller of Public Accounts

March 23, 2005

512/463-4000

Fax: 512/463-4965

P.O. Box 13528

AUSTIN, TEXAS 78711-3528

The Honorable Thomas R. Craddick
Texas House of Representatives

The Honorable James L. Keffer
Texas House of Representatives

Dear Mr. Speaker and Chairman Keffer:

After receiving the enrolled version of House Bill (HB) 3, I asked my revenue estimators to review the bill's final provisions and prepare a detailed fiscal analysis of the bill for your information. This analysis is enclosed.

As you know, the Bill changed substantially during the course of floor debate. As originally adopted by the Ways and Means Committee, HB 3, when fully implemented, would have produced approximately \$6 billion in new state revenue to offset a reduction of \$6 billion in local school property taxes each year, thus achieving a balance between the state revenue raised and local school property tax reduced.

As passed by the full House, the Bill did not achieve this balance. In Fiscal Year 2006, the Bill raises \$2.8 billion in new state taxes with no local property tax relief. In Fiscal Year 2007—the first year of property tax reduction—the property tax reduction of \$5.8 billion exceeds the offsetting increase in state revenue of \$4 billion by \$1.8 billion. In Fiscal Year 2008, the property tax reduction exceeds state revenues by \$2 billion. In 2009, the imbalance is \$2.3 billion and the imbalance continues to grow each year thereafter.

The problem with the Bill not balancing is entirely in Article 2, which is the business tax section of the Bill. The Bill's revised business tax is designed to give taxpayers a choice between a payroll tax base and a franchise tax base. The Bill does not provide for a minimum tax. Taxpayers will simply plan around the tax as easily as they do the current franchise tax. For those firms currently paying the franchise tax, and given the tax rates used for the franchise and payroll components, providing taxpayers with a choice of tax bases greatly reduces their tax liability. New firms would be added, but they too would have the same choice of tax bases and therefore their inclusion would not close the funding gap. Additionally, there are various ways of avoiding the tax—such as replacing existing staff with leased staff.

These problems were discussed at length during the course of debate on HB 3. Mr. Speaker and Mr. Chairman, as always, I stand ready to continue to work closely with you on these issues.

Sincerely,

Carole Keeton Strayhorn
Texas Comptroller

Enclosure



c: Members of the Texas House of Representatives

COMPTROLLER OF PUBLIC ACCOUNTS

FISCAL NOTE ESTIMATE

For: CSHB 3 by Keffer, J., as engrossed

Date: March 22, 2005

I. Bill Summary

This bill relates to property taxes, the implementation of new taxes, the repeal of existing taxes, the increase in rates for existing taxes, and the expansion of tax bases.

ARTICLE 1.

This article would amend the Education, Government, and Tax Codes relating to school property tax relief.

The bill would amend Section 45.003 of the Education Code to reduce the ad valorem maintenance and operations (M&O) tax rate cap from \$1.50 per hundred dollars of valuation to \$0.997 per \$100 valuation. A new subsection would allow any school district election held before September 1, 2005 authorizing a rate cap of at least \$0.997 to be sufficient authorization for a rate of \$0.997 or less. Districts permitted on January 1, 2005 to have M&O tax rates higher than \$1.50 would be allowed to impose a rate \$0.503 less than the previously authorized rate.

The bill would add a new subchapter to Chapter 403 of the Government Code to establish the distribution of increases in available state revenue for school district property tax reduction. The Comptroller, before each regular session, would determine the increase, if any, in available state revenue, comparing the preceding and current state revenue estimates required by Section 49a(a) of the Texas Constitution. The Comptroller would certify to the Legislature the amount of any increase and the school district M&O taxes levied for the second year of the current fiscal biennium. The Comptroller would distribute to school districts 15 percent of any increase in available state revenue for the reduction of school district tax rates. The revenue would be distributed in equal amounts in each fiscal year of the biennium based on the taxable value in each school district, as determined by the Comptroller's property value study.

The bill would add a new section to Chapter 42 of the Education Code to provide additional state aid to school districts as compensation for losses in state funding caused by the proposed tax rate reductions.

The bill would amend Section 26.08 of the Tax Code to require school districts receiving additional state aid for property tax relief to reduce their rollback tax rates commensurate with the additional aid.

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The bill would add a new subchapter to Chapter 22 of the Tax Code to require the disclosure of the sales price of real property to appraisal districts.

The bill would require the purchaser of real property to file a signed report with the chief appraiser disclosing the sales price of the property and other sales and value related information. A disclosure report would not be required for non-market sales, such as foreclosure and bankruptcy transfers. The chief appraiser would have to provide the purchaser with a certificate stating that the report had been received. Each appraisal district would have to prepare, and make available, report forms conforming to statutory requirements. The bill would allow the chief appraiser to bring an action for injunction to compel a person to comply with the mandatory disclosure requirements.

The bill would make sales price disclosure reports confidential other than: 1) to the appraisal district and collecting taxing units; 2) to the Comptroller; 3) in a judicial or administrative proceeding; or 4) for non-property specific statistical purposes. A person who knowingly disclosed confidential sales disclosure information would be subject to a Class B misdemeanor.

The bill would amend Section 23.013 of the Tax Code to prohibit a chief appraiser from increasing the market value of real property solely on the basis of information in a disclosure report.

The bill would add a new section to Chapter 25 of the Tax Code to make appraisal district photographs of residential improvements to real property, other than residence homesteads, confidential. Confidential photographs would be available to the Comptroller, to the state, and to local units of government. An aerial photograph of five or more separately owned buildings would not be confidential.

The bill would amend Section 313.051 of the Tax Code to allow a school district containing a federal nuclear facility to continue to be considered rural if that district was rural under Section 313.051 on January 1, 2002.

The bill would amend Section 11.24 of the Tax Code to include culturally significant sites with the current optional exemption for historic sites.

The bill would amend Sections 26.05 and 26.06 of the Tax Code to require a taxing unit other than a school district or a water district to publish notice and hold a public hearing on any proposed tax rate above the lower of the rollback rate or the effective tax rate.

Article 1 provisions concerning the confidentiality of certain appraisal records and the procedures for adoption of tax rates would take effect immediately upon enactment, assuming that the bill received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, the those sections would take effect on the 91st day after the last day of the legislative session. The other provisions would take effect January 1, 2006.

ARTICLE 2.

This article would amend the Tax Code by adding a new chapter titled "Reformed Franchise Tax," by amending the franchise tax, and by adding a subchapter titled "Forfeiture of Right to Transact Business in this State." Together, the Reformed Franchise Tax and the amendments to the existing franchise tax would create a tax

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system under which taxpayers would be able to choose to pay either of the taxes.

The Reformed Franchise Tax (RFT) would be based on wages paid to an employee by an employer during a calendar quarter, to which a tax of 1.15 percent would be applied. Any business that pays or is required to pay the unemployment insurance tax would be subject to the tax. With some exceptions, a business subject to the tax could elect to pay the RFT or the franchise tax. The election could not be changed for three years. An exception would include a business with no employees in the state; such a business may not elect to pay the RFT.

A business in the business of leasing employees would have to pay the RFT and could not elect to pay the franchise tax. However, an employee leasing business that reported and paid the franchise tax for a report year ending before January 1, 2005 could elect to pay the franchise tax.

A corporation with no employees in the state during calendar 2004, but subsequently with employees in the state, could elect to pay the RFT. However, a minimum tax equal to the amount of franchise tax paid in the previous report year would be required through the end of calendar 2008.

Government entities and charitable organizations exempt from federal income tax under Section 501(c)(3) would be exempt from the RFT. A business with Texas gross receipts less than \$150,000 during a calendar year would be exempt from the tax.

A taxable business would remit the tax due to the Texas Workforce Commission in the same manner and at the same time as contributions assessed under the unemployment compensation provisions of the Labor Code.

Certain health care providers would receive credits against the tax imposed under the RFT based on their participation in the Medicare or Medicaid programs, or, in the case of physicians, the Children's Health Insurance Program. To receive the credit, the provider would have to receive at least 15 percent of the business's revenue from the programs. The credit would be equal to 40 percent of the payments received from the programs and would be limited to the amount of tax liability.

The bill would amend Chapter 171 of the Tax Code (the franchise tax) by including in the definition of "corporation" a sole proprietorship with at least one employee, a partnership owned solely by natural persons with at least one employee, all businesses that operate in a manner that provides liability limitations to owners, and a partnership or joint venture owned in part by another form of business that has a least one employee.

The bill would exclude from the definition of corporation ten types of entities, including, among others, a trust, a sole proprietorship with no employees, and a partnership with no employees.

The bill would expand the definition of doing business in Texas to include a corporation that is a limited partner in a limited partnership doing business in Texas. The bill would provide an election for corporations to pay the franchise tax or the RFT. The election could not be changed for three years.

The bill would provide that a corporation would add back payments made to

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related entities for certain types of expenses to the extent they exceed an arm's length rate.

The bill would repeal provisions in Chapter 171 related to the exemption of insurance companies from the franchise tax.

The Comptroller would be directed to adopt rules to avoid double taxation with the taxes imposed under the RFT and the franchise tax.

The bill would add a subchapter to Chapter 111 relating to forfeiture of the right to transact business in this state. The new subchapter would preserve the powers that the Comptroller's Office has under the existing Chapter 171 regarding forfeiture of corporate privileges and the right to transact business in Texas. The new subchapter would extend the same procedures to other entities that would be subject to the subchapter under a tax imposed by Title 2 of the Tax Code.

Article 2 would take effect January 1, 2006.

ARTICLE 3.

This article, which is divided into three parts, would amend the Tax Code relating to sales and use taxes.

Part A would amend Chapter 151 to raise the state sales and use tax rate from 6.25 percent to 7.25 percent. The bill would add billboard advertising services, motor vehicle repair services, motor vehicle wash or detail services, and elective cosmetic procedures to the list of taxable services under the sales tax. Motor vehicle parking at certain health care facilities and diapers would be exempted from the sales tax. The exemption for water would be amended to exclude water sold in a sealed container.

The timely filer discount for sales tax payers would be reduced to 0.5 percent to 0.33 percent. The bill would provide a prior contract exemption for the services added to the sales tax base until July 1, 2007.

Part A would take effect July 1, 2005, assuming that the bill received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect October 1, 2005.

Part B would amend Chapter 152 of the Tax Code to raise the motor vehicle sales tax rate and the motor vehicle rental tax rate on rentals of more than 30 days to 7.35 percent. The 7.35 percent rate would apply to motor vehicles purchased outside of this state and brought back into the state by a Texas resident, and to motor vehicles purchased in Texas without payment of the tax, transferred out of the state immediately and then returned to Texas. It would not apply to even exchanges of motor vehicles or on gifts of motor vehicles.

The bill would amend Chapter 152 of the Tax Code to establish a presumptive value for determining the proper amount of motor vehicle sales tax due on certain motor vehicle sales transactions. The presumptive value would be the average retail value of a motor vehicle for motor vehicle sales tax computation purposes. The Texas Department of Transportation (TxDOT) would determine the presumptive value of a motor vehicle based on a nationally recognized motor vehicle industry reporting service.

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If the amount paid for a motor vehicle in a sales transaction were greater than or equal to the presumptive value, a tax assessor-collector would compute and collect the motor vehicle sales tax due on the amount paid. If, however, the amount paid for a motor vehicle in a sales transaction were less than the presumptive value, the tax assessor-collector would compute and collect the motor vehicle sales tax due on the presumptive value, unless the purchaser could establish a retail value.

The bill would allow a purchaser to establish a retail value by obtaining an appraisal certified by an adjuster licensed under Chapter 4101 of the Insurance Code or by a motor vehicle dealer operating under Subchapter B, Chapter 503 of the Transportation Code.

Appraisals would have to be on a form prescribed by the Comptroller, and they would have to be obtained no later than the 20th day after purchase. Dealers could charge a fee, set by the Comptroller, for providing the certified appraisal; and the tax assessor-collector would retain a copy of each certified appraisal for a period prescribed by the Comptroller.

TxDOT would maintain information on the standard presumptive values of motor vehicles as part of its registration and title system; TxDOT would update the information at least quarterly each calendar year. Standard presumptive value would not apply to even exchange transactions or gift transactions.

The provisions relating to standard presumptive value and its use by tax assessor-collectors would take effect October 1, 2005. The provisions relating to the increase in the motor vehicle sales tax rate would take effect July 1, 2005 if the bill received a vote of two-thirds of the members elected to each house. If the bill did not receive the necessary votes for immediate effect, those provisions would take effect September 1, 2005.

Part C would amend Chapter 160 to raise the boat and boat motor sales and use tax rate from 6.25 percent to 7.35 percent. The provisions of Part C would take effect July 1, 2005, assuming that the bill received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, they would take effect September 1, 2005.

Part D would create a new Chapter 164 to impose a tax on discretionary food and drink items. The tax rate would be 3 percent of the sales price of soft drinks and snack food. The tax would not apply to food or to a beverage sold by a restaurant or other business for consumption on the premises of the business. This provision would take effect July 1, 2005, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2005. All revenues received under the new chapter would be deposited to the credit of the General Revenue Fund 0001.

ARTICLE 4.

This article would amend the Tax and Health and Safety Codes by raising the tax rates for cigarettes, cigars, and other tobacco products.

Part A would amend Chapter 154 to raise the cigarette tax rate by \$50.60 per 1,000 cigarettes weighing three pounds or less per thousand (\$1.00 per pack of 20 cigarettes), to a new rate of \$71.10 per 1,000 cigarettes (\$1.42 per pack). Cigarette tax revenue generated by the rate increase would be allocated to Fund 0001.

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The bill would amend Chapter 155 to raise the tax rates for all of the tobacco products in that chapter. The tax on small cigars (weighing three pounds or less per thousand) would increase from \$0.01 per 10 cigars to \$0.0344 per 10 cigars; the tax on each of the three categories of large cigars (\$7.50, \$11.00, and \$15.00 per thousand) would increase by 244 percent (to \$25.80, \$37.84, and \$51.60 per thousand, respectively); and the tax on tobacco products other than cigarettes and cigars (i.e., snuff; chewing and pipe tobacco) would increase from 35.213 percent to 40 percent of the manufacturer's list price. Cigar and tobacco products tax revenue generated by the rate increases would be allocated to Fund 0001.

ARTICLE 5.

This article would amend the Utilities Code, relating to certain utility taxes.

The bill would amend Chapter 57 to continue GR Account 0345—Telecommunications Infrastructure until September 1, 2011, and it would repeal portions of the statute imposing a ceiling on the assessment.

Revenue received from extension of the assessment would be deposited to Fund 0001. Certificated telecommunications utilities would be allowed to recover the assessment from their customers once the balance in the fund from assessment deposits exceeded \$1.5 billion. The Comptroller's Office would publish in the *Texas Register* the date that assessment deposits totaled \$1.5 billion. Utilities would annually file with the Public Utility Commission confidential affidavits attesting to the assessment amounts paid and the assessment amounts recovered from customers. This article would take effect September 1, 2005.

Unless otherwise noted, this bill would take effect July 1, 2005, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2005.

II. Methodology Summary

ARTICLE 1.

Regarding property tax rate reduction, for each school district with an M&O tax rate above \$1.50, the M&O tax rate was reduced by \$0.503. For each school district with an M&O rate above \$0.997, but at or below \$1.50, the M&O rate was reduced to \$0.997. No change was made to the tax rates of school districts with M&O rates less than \$0.997.

A statewide school district M&O levy was calculated at the new rates, trended over the projection period, and subtracted from the statewide M&O levy as calculated and trended under current law. The difference would be the loss to school districts under the bill. The state, through the school funding formula, would reimburse school districts for their losses after a one-year lag, creating a loss to state general revenue. Cities, counties, and special districts would be unaffected.

Note: The reduction in school district M&O rates proposed in this article would not be mandatory. Instead, the bill would reduce the maximum rate allowed in an electoral proposition to authorize an operations tax levy. School districts could choose not to submit a proposition to authorize the reduced tax rate, because they already have voter authorization at their current M&O rate. For this reason, the bill would have no fiscal impact, unless the language were revised to make the rate reduction mandatory, or unless a court determined that the language did require

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rate reduction, in which case the school district and state losses shown herein would apply.

ARTICLE 1 (Property Tax Rate Reduction)

Fiscal Year	Gain/(Loss) to General Revenue—Related Funds	Gain/(Loss) to School Districts
2006	\$0	\$0
2007	0	(5,783,107,000)
2008	(5,783,107,000)	(291,306,000)
2009	(6,074,413,000)	(273,349,000)
2010	(6,347,761,000)	(285,649,000)

Regarding sales price disclosure, the amount of property value gain was based on a survey of large appraisal districts. The appraisal districts' methodology for estimating gains is unknown. The median percent increase in property value was applied to the state total property value to estimate the statewide property value gain.

The disclosure requirement would begin on January 1, 2006, which would be too late to help appraisal districts with their 2006 appraisals. Consequently, the first affected tax year would be 2007, and the first effect on taxing units would be in fiscal 2008. Also, the state only requires reappraisal once every third year, so the full effect of the bill would not be realized until fiscal 2010. In this estimate, the gain was implemented in increments of one-third per year. The gain was reduced because certain sales information required in the appraisal process was not included in the prescribed disclosure form.

Values and tax rates were trended through the projection period. A factor of 70 percent was applied to the statewide value gain to estimate the amount of gain inside cities. No information was available to estimate special district gains. The appropriate county, city, and school district tax rates were applied to the value gains to project their respective revenue gains. Through the operation of the school funding formula, school district gains shift to the state after a one-year lag.

ARTICLE 1 (Sales Price Disclosure)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001	Gain/(Loss) to School Districts
2006	\$0	\$0
2007	0	0
2008	0	37,132,000
2009	37,132,000	40,608,000
2010	77,739,000	44,277,000

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Fiscal Year	Gain/(Loss) to Cities	Gain/(Loss) to Counties
2006	\$0	\$0
2007	0	0
2008	9,876,000	9,092,000
2009	21,123,000	19,346,000
2010	33,863,000	30,863,000

With respect to the rollback tax rate reduction, the fiscal impact of requiring a taxing unit other than a school district or water district to publish notice and to hold a public hearing on any proposed tax rate above the lower of the rollback rate or the effective tax rate would depend on future actions by taxing units relative to the adoption of property tax rates. The Comptroller's Property Tax Division does not receive or maintain information that would be helpful in predicting the future behavior of units of local government.

ARTICLE 2.

The estimate is based on Comptroller's tax files and on employment and wage information from the Texas Workforce Commission.

ARTICLE 2 (Implement Reformed Franchise Tax and Change Franchise Tax)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2006	(\$798,893,000)
2007	(474,618,000)
2008	(544,977,000)
2009	(824,119,000)
2010	(855,013,000)

ARTICLE 3, PART A.

The fiscal implications of raising the sales tax rate to 7.25 percent and lowering the timely filer discount to 0.33 percent were estimated using current state sales and use tax revenue projections. The fiscal impact was adjusted for potential effective dates of July 1, 2005 and October 1, 2005. The revenue gains for the State Highway Fund 0006 reflect the increased sales tax revenue attributable to motor lubricants.

To estimate the implications of taxing billboard advertising services, motor vehicle repair services, motor vehicle wash or detail services, and elective cosmetic procedures, data on the sale of these services were gathered from industry sources, the U.S. Census Bureau, and Comptroller tax files. Sales were adjusted for Texas, multiplied by the increased state sales tax rate, adjusted for potential prior contracts and potential effective dates of July 1, 2005 and October 1, 2005, and extrapolated through fiscal 2010.

To estimate the implications of exempting diapers and parking services at certain health care facilities, data on the sale of these items were gathered from the U.S. Census Bureau and Comptroller tax files. Sales were adjusted for Texas, multiplied by the state sales tax rate, adjusted for potential effective dates of July

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1, 2005 and October 1, 2005, and extrapolated through fiscal 2010.

To estimate the implications of eliminating the sales tax exemption for water sold in a sealed container, data on the sale of bottled water were gathered from industry sources. Revenues were adjusted to reflect Texas sales, multiplied by the increased sales tax rate, adjusted for potential effective dates of July 1, 2005 and October 1, 2005, and extrapolated through fiscal 2010.

ARTICLE 3, PART A (State Sales and Use Tax Rate Increase, effective July 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001	Gain/(Loss) to the State Highway Fund 0006
2005	\$169,628,000	\$352,000
2006	2,132,835,000	4,422,000
2007	2,242,463,000	4,638,000
2008	2,318,035,000	4,869,000
2009	2,420,045,000	5,114,000
2010	2,540,347,000	5,367,000

ARTICLE 3, PART A (State Sales and Use Tax Rate Increase, effective October 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001	Gain/(Loss) to the State Highway Fund 0006
2006	\$1,777,762,000	\$3,686,000
2007	2,242,463,000	4,638,000
2008	2,318,035,000	4,869,000
2009	2,420,045,000	5,114,000
2010	2,540,347,000	5,367,000

ARTICLE 3, PART A (Sales and Use Tax Base Expansion, effective July 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001	Gain/(Loss) to City Sales Tax Revenue	Gain/(Loss) to MTA Sales Tax Revenue	Gain/(Loss) to County/SPD Sales Tax Revenue
2005	\$30,691,000	\$0	\$0	\$0
2006	363,946,000	53,497,000	18,402,000	6,657,000
2007	406,558,000	60,284,000	20,738,000	7,501,000
2008	439,540,000	65,525,000	22,541,000	8,154,000
2009	466,250,000	69,757,000	23,996,000	8,680,000
2010	494,760,000	74,249,000	25,551,000	9,243,000

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ARTICLE 3, PART A (Sales and Use Tax Base Expansion, effective October 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001	Gain/(Loss) to City Sales Tax Revenue	Gain/(Loss) to MIA Sales Tax Revenue	Gain/(Loss) to County/SPD Sales Tax Revenue
2006	\$316,631,000	\$40,122,000	\$13,803,000	\$4,993,000
2007	406,558,000	60,284,000	20,738,000	7,501,000
2008	439,540,000	65,525,000	22,541,000	8,154,000
2009	466,250,000	69,757,000	23,996,000	8,680,000
2010	494,760,000	74,249,000	25,551,000	9,243,000

ARTICLE 3, PART B.

The bill would increase the motor vehicle sales tax rate to 7.35 percent from the current rate of 6.25 percent. The new rate was applied to estimates of annual gross sales subject to the motor vehicle sales tax and adjusted for behavioral effects. This change would take effect July 1, 2005 or September 1, 2005.

The bill would increase the motor vehicle rental tax rate on rentals lasting more than 30 days to 7.35 percent from the current rate of 6.25 percent. Long-term rental tax represent approximately 5 percent of all rental tax revenue collected. The new rate was applied to estimates of adjusted gross rental tax and adjusted for behavioral effects. This change would take effect July 1, 2005 or September 1, 2005.

The presumptive value provisions would apply primarily to sales of motor vehicles between individuals, often referred to as "casual" or "private" sales. Even exchanges of motor vehicles or gifts of motor vehicles would not be included in the presumptive value requirements. The estimate assumes an average value of a used vehicle in Texas to be approximately \$7,300. This change would take effect October 1, 2005.

ARTICLE 3, PART B (Motor Vehicle Sales/Rental Tax Rate Increases and Presumptive Value, effective July 1, 2005 and October 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2005	\$63,664,000
2006	438,147,000
2007	481,365,000
2008	501,515,000
2009	520,966,000
2010	542,331,000

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ARTICLE 3, PART B (Motor Vehicle Sales/Rental Tax Rate Increases and Presumptive Value, effective September 1, 2005 and October 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2006	\$438,147,000
2007	481,365,000
2008	501,515,000
2009	520,966,000
2010	542,331,000

ARTICLE 3, PART C.

The fiscal implications of raising the boat tax rate were estimated using current boat tax revenue projections. The fiscal impact was adjusted for potential effective dates of July 1, 2005 and September 1, 2005.

ARTICLE 3, PART C (Boat and Boat Motor Sales and Use Tax Rate Increase, effective July 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2005	\$647,000
2006	7,898,000
2007	8,048,000
2008	8,209,000
2009	8,381,000
2010	8,549,000

ARTICLE 3, PART C (Boat and Boat Motor Sales and Use Tax Rate Increase, effective September 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2006	\$7,240,000
2007	8,048,000
2008	8,209,000
2009	8,381,000
2010	8,549,000

ARTICLE 3, PART D.

To estimate the implications of imposing a tax on discretionary food and drink items, data on the sale of soft drinks and snack food were gathered from industry sources. Revenues were adjusted to reflect Texas sales, adjusted for restaurant and other sales for consumption on premises, multiplied by the tax rate of 3 percent, adjusted for potential effective dates of July 1, 2005 and September 1, 2005, and

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extrapolated through fiscal 2010.

ARTICLE 3, PART D (New Tax on Discretionary Food and Drink Items, effective July 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2005	\$11,387,000
2006	241,954,000
2007	247,567,000
2008	253,349,000
2009	259,305,000
2010	265,443,000

ARTICLE 3, PART D (New Tax on Discretionary Food and Drink Items, effective September 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2006	\$221,792,000
2007	247,567,000
2008	253,349,000
2009	259,305,000
2010	265,443,000

ARTICLE 4, PART A.

The proposed cigarette, cigar and other tobacco tax rate increases were estimated using current revenue projections for these taxes, adjusted for declines in taxable consumption in Texas, as well as tax avoidance effects and collection lags.

ARTICLE 4, PART A (Cigarette, Cigar, and Other Tobacco Tax Rate Increases, effective July 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2005	\$54,644,000
2006	709,586,000
2007	773,458,000
2008	677,376,000
2009	721,477,000
2010	629,407,000

ARTICLE 4, PART A (Cigarette, Cigar, and Other Tobacco Tax Rate Increases, effective September 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2006	\$653,318,000
2007	773,458,000
2008	677,376,000
2009	721,477,000
2010	629,407,000

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ARTICLE 5.

Estimates of the fiscal impacts on GR Account 0345 Telecommunications Infrastructure were based on the Comptroller's 2006-07 *Biennial Revenue Estimate* and data from assessment returns paid by telecommunications utilities.

ARTICLE 5 (Telecommunications Infrastructure Fund Extension, effective July 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001
2005	\$0
2006	200,000,000
2007	200,000,000
2008	200,000,000
2009	200,000,000
2010	200,000,000

ARTICLE 5 (Telecommunications Infrastructure Fund Extension, effective September 1, 2005)

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001	Gain/(Loss) to GR Account 0345—Telecommunications Infrastructure
2006	\$166,667,000	\$33,333,000
2007	200,000,000	0
2008	200,000,000	0
2009	200,000,000	0
2010	200,000,000	0

In addition, dynamic fiscal impacts would result from this tax revision. The dynamic effects are included in the column displaying the gains and losses to Fund 0001, below.

III. Fiscal Impact, 2006-2010

The following tables reflect an effective date of July 1, 2005. The estimated fiscal implications to General Revenue reflect estimated dynamic tax feedback effects created by the increase/decrease in industry and/or individuals' tax burdens.

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001	Gain/(Loss) to the State Highway Fund 0006	Gain/(Loss) to School Districts
2005	\$327,379,000	\$352,000	\$0
2006	3,294,575,000	4,422,000	0
2007	3,936,179,000	4,638,000	(5,783,107,000)
2008	(1,810,286,000)	4,869,000	(254,174,000)
2009	(2,102,961,000)	5,114,000	(232,741,000)
2010	(2,223,591,000)	5,367,000	(241,372,000)

This analysis should not be considered as a proposal recommended by Comptroller Strayhorn.

Fiscal Year	Gain/(Loss) to City Sales Tax Revenue	Gain/(Loss) to MTA Sales Tax Revenue	Gain/(Loss) to County/SPD Sales Tax Revenue
2005	\$0	\$0	\$0
2006	53,497,000	18,402,000	6,657,000
2007	60,284,000	20,738,000	7,501,000
2008	75,401,000	22,541,000	17,246,000
2009	90,880,000	23,996,000	28,026,000
2010	108,112,000	25,551,000	40,106,000

The following tables reflect an effective date of September 1 or October 1, 2005. The estimated fiscal implications to general revenue reflect estimated dynamic tax feedback effects created by the increase/decrease in industry and/or individuals' tax burdens.

Fiscal Year	Gain/(Loss) to the General Revenue Fund 0001	Gain/(Loss) to GR Account 0345-Telecommunications Infrastructure
2006	\$2,782,215,000	\$33,333,000
2007	3,936,179,000	0
2008	(1,810,286,000)	0
2009	(2,102,961,000)	0
2010	(2,223,591,000)	0

Fiscal Year	Gain/(Loss) to the State Highway Fund 0006	Gain/(Loss) to School Districts
2006	\$3,686,000	\$0
2007	4,638,000	(5,783,107,000)
2008	4,869,000	(254,174,000)
2009	5,114,000	(232,741,000)
2010	5,367,000	(241,372,000)

Fiscal Year	Gain/(Loss) to City Sales Tax Revenue	Gain/(Loss) to MTA Sales Tax Revenue	Gain/(Loss) to County/SPD Sales Tax Revenue
2006	\$40,122,000	\$13,803,000	\$4,993,000
2007	60,284,000	20,738,000	7,501,000
2008	75,401,000	22,541,000	17,246,000
2009	90,880,000	23,996,000	28,026,000
2010	108,112,000	25,551,000	40,106,000

IV. Cash Flow Effects

This bill would have a positive effect on the state's cash flow in fiscal 2006 and 2007, and a negative effect thereafter.

This analysis should not be considered as a proposal recommended by Comptroller Strayhorn.

V. Administrative Cost to the Comptroller

There would be no significant administrative costs to the Comptroller's Office.

VI. Technology

There would be no significant technology impact to the Comptroller's Office.

VII. Fiscal Implications after 2010

Similar fiscal implications would continue after 2010.

This analysis should not be considered as a proposal recommended by Comptroller Strayhorn.