

- SUBJECT:** Sales tax exemption for certain school supplies
- COMMITTEE:** Ways and Means — committee substitute recommended
- VOTE:** 7 ayes — Oliveira, Bonnen, Craddick, Keffer, T. King, Ramsay, Sadler  
2 nays — McCall, Heflin  
2 absent — Y. Davis, Hilbert
- WITNESSES:** None
- BACKGROUND:** The state sales tax is the largest source of tax revenue for Texas, accounting for about 55 percent of state tax receipts. The tax is applied on certain transactions, typically on the final sale or rental of tangible personal property and on some services. The sales tax was enacted in 1961, and the state sales tax rate has been 6.25 percent since 1990. Local taxing entities may add local sales taxes that collectively may not exceed 2 percent.
- Tax Code, sec. 151.301 et seq. exempts various tangible items and services from imposition of the tax and exempts certain purchasers from paying the tax. Some basic necessities are exempted, including groceries, prescription medications, and other health-care needs, residential natural gas and electric utility service, and water. Currently, all state sales tax exemptions apply year-round. State sales tax exemptions also apply to local sales taxes, as provided by Tax Code, sec. 321.208.
- DIGEST:** CSHB 209 would exempt from the sales tax tangible school supplies that:
- ! are required for use by a student in public or private elementary or secondary school;
  - ! are on a list issued before the beginning of the school year by the teacher of the class or by the school; and
  - ! have a value of less than \$25 per item.
- The exemption would apply only to such school supplies bought during the month of August. The exemption would not apply to clothing or footwear.

The bill would require a purchaser to present an exemption certificate to the merchant at the time of purchase, unless the merchant maintained a separate section or display area that contained only exempted supplies, or unless the seller was the student's school or a parent-teacher organization of the school.

The bill would allow the comptroller to specify by rule examples of items that typically would qualify for the exemption.

CSHB 209 would take effect on the first day of the first calendar quarter beginning on or after the date that it could take effect under the state constitution. If the bill were finally passed by a two-thirds record vote of the membership of each house, the exemption would take effect on July 1, 1999. Otherwise, the bill would take effect October 1, 1999.

**SUPPORTERS  
SAY:**

CSHB 209 would help Texas families by eliminating the sales tax on school supplies that all families must buy for their younger children. Despite a growing economy, many families are struggling to make ends meet. This bill would help poorer families in particular, because sales taxes take a higher percentage of their household income. Sales taxes consume about 7 percent of the income earned by the poorest 20 percent of families in Texas.

This tax exemption would cost the state an estimated \$10.4 million in general revenue-related funds through fiscal 2001 if the bill took effect July 1, 1999, a small price tag given the benefits this exemption would provide to poorer Texas families. The bill would be an effective way to give money back to families who need it most, and its cost would be relatively small compared with that of other, broader proposals.

**OPPONENTS  
SAY:**

Taxes should not be reduced until schools, health care, and human service programs are fully funded. Teacher salaries are well below the national average. Texas ranks 35th nationally in per-capita elementary and secondary education spending.

If the Legislature determines that a tax cut is desirable, broad-based tax-rate reductions would produce more benefits for the state economy in terms of job creation and capital formation in relation to the revenue the state would lose. Narrow exceptions to taxation do help some Texans, but they produce little in terms of overall economic benefit. All Texans have contributed to the state through higher taxes, and all Texans should share fairly in a tax cut. Texas

families would be served better by a reduction in the sales tax rate than by a series of specific exemptions aimed at limited numbers of families.

A more broad-based approach to tax reduction also would minimize the impacts on local governments. Once an item is exempted from the state sales tax, it also is exempted from all local sales taxes. Not all cities, counties, transportation authorities, and other taxing districts have large surpluses allowing them to afford to exempt items from the sales tax.

OTHER  
OPPONENTS  
SAY:

Appropriations are justified and reviewed biennially. Tax exemptions — which, like appropriations, involve the directing of state funds — ought to be reviewed periodically as well. The Legislature should require the comptroller to prepare a report on the effectiveness and economic benefit of tax incentives. Such a report would provide the Legislature with sufficient quantitative evidence to determine whether these incentives should be extended, modified, or eliminated.

NOTES:

The committee substitute added language establishing the \$25 maximum value, specifying that the exemption would not apply to clothing or footwear, allowing the school or parent-teacher organization to sell the items without requiring an exemption certificate, and enabling the comptroller to establish rules specifying items that would typically be exempt.