



AUGUST 2016

FISCAL NOTES

ALSO INSIDE THIS ISSUE:

TEXAS LOCAL SALES TAX, PART II 7

STATE REVENUE WATCH 11

The Hazlewood Act: College for Veterans

By Joyce Jauer and Tara Blagg

UNIQUE PROGRAM WITH A SPIRALING PRICE TAG

Texans pride themselves on keeping their word. But what if you find that a promise made in good faith could hurt others?

Texas has a long and unique history with its veterans. It's the only U.S. state that offers extensive educational benefits to veterans and their children. Through the state's Hazlewood Act, originally approved in 1943, Texas promises its veterans or their survivors 150 free credit hours at any of the state's public universities or community colleges, once their federal benefits have been exhausted. And vets may transfer hours they don't use to their children.

This benefit, commonly called the Hazlewood exemption, isn't a grant or a scholarship, and its recipients never actually see any money. Instead, colleges and universities absorb the costs of the credit hours provided by the act.

But some say Hazlewood puts an undue strain on our institutions as well as many of their students. The number of recipients, particularly those receiving benefits transferred from a living parent, is growing exponentially, and educational institutions are passing along the cost of the exemption to other students through higher tuition bills. Skyrocketing tuition costs are forcing an uncomfortable question: how long can Texas and its colleges sustain the exemption?

HAZLEWOOD HISTORY

Texas' tradition of offering veterans educational benefits dates back to 1923, when legislators required public universities to exempt World War I veterans from tuitions and fees.



In 1943, the Legislature modified the law to accommodate World War II veterans as well as the children of deceased veterans. Legislators named this the Hazlewood Act after the bill's strongest proponent, Senator Grady Hazlewood of Amarillo.

Since then, the Legislature has amended the act several times, most notably in 2007, to allow Hazlewood beneficiaries to qualify for state and federal veteran educational benefits simultaneously; and in 2009, to allow living veterans to pass up to 150 unused credit hours to a child under 26 and to extend the posthumous benefit to spouses. The ability to transfer credit hours to children has become known as the "Legacy Program."

AN IMPORTANT BUT COSTLY BENEFIT

The Hazlewood exemption, obviously, is a huge asset to Texas military families, offering vets a pathway to a new career or helping them provide an education for their children.

Hannah Arnold, a member of the Texas A&M University class of 2018, is studying biomedical sciences using Hazlewood benefits her father earned through 25 years of service in the Air Force Reserve.

"The financial support I receive from the Hazlewood Act is 100 percent essential — I don't know if I'd be able to be here without it," she says. "My parents didn't have a college fund saved for me, so I did a lot of research on how to pay for college."

CONTINUED ON PAGE 3



Hannah Arnold
Texas A&M
Class of 2018

A Message from the Comptroller

Texas has always had a special relationship with the military and with veterans. Texans have been in the forefront of most of our nation's wars, and many of our families have a long and proud tradition of service.



For decades, our state has celebrated its bond with the armed services by providing our veterans with a unique benefit. Under the Hazlewood Act, Texas veterans, their children or their survivors can receive 150 free credit hours at any public college or university in the state.

But it's an expensive benefit for some educational institutions, and for Texas students who can't receive it. Spiraling losses in tuition revenue due to the exemption — nearly \$178 million in 2015 — are forcing public colleges and universities to raise tuition rates to make up the cost. In effect, students without Hazlewood benefits are subsidizing those who have them.

In this issue of *Fiscal Notes*, we examine the history and financial implications of the Hazlewood Act.

We also continue the examination of local sales taxes we began in our May issue, discussing how these taxes are reported, paid and allocated, and some of the administrative issues that inevitably arise when tax revenue has to be distributed to more than 1,500 local jurisdictions.

As always, I hope you enjoy this issue!


GLENN HEGAR
 Texas Comptroller of Public Accounts

If you would like to receive paper copies of *Fiscal Notes*, contact us at fiscal.notes@cpa.texas.gov

MILITARY SNAPSHOT

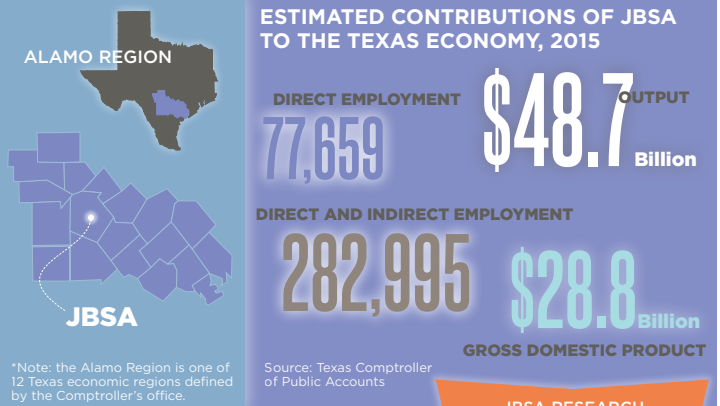
Joint Base San Antonio



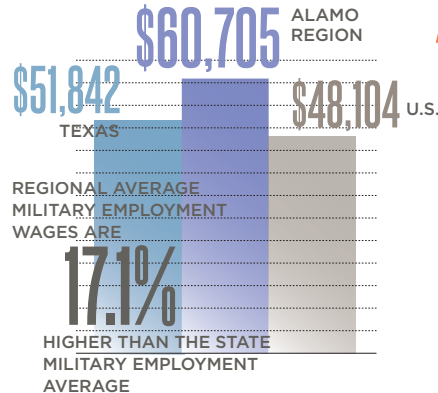
Texas has long been committed to our military bases and the personnel who call the Lone Star State home. As the state's chief financial officer, I appreciate the military's contribution to our economy: \$136.4 billion in total annual output, \$81.3 billion in gross state product and support for more than 804,000 Texans. By detailing the economic impact of our military installations, we hope to emphasize their importance to strong, diverse and growing regional economies.

Glenn Hegar

Texas Comptroller of Public Accounts



AVERAGE MILITARY EMPLOYMENT WAGES, 2014



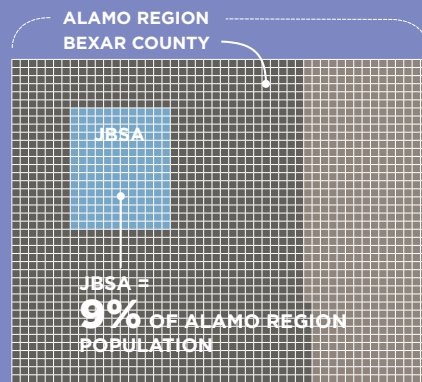
JBSA RESEARCH DEVELOPED TECHNOLOGY TO DETECT INTERNAL BLEEDING AND HEAT INJURY.

In 2014, military employment accounted for **3.4%** of Alamo Region employment

and contributed **4.8%** of its compensation.

Source: U.S. Census Bureau

PEOPLE ASSOCIATED WITH JBSA



NEARLY ONE OUT OF EVERY EIGHT PEOPLE IN BEXAR COUNTY IS ASSOCIATED WITH JBSA.

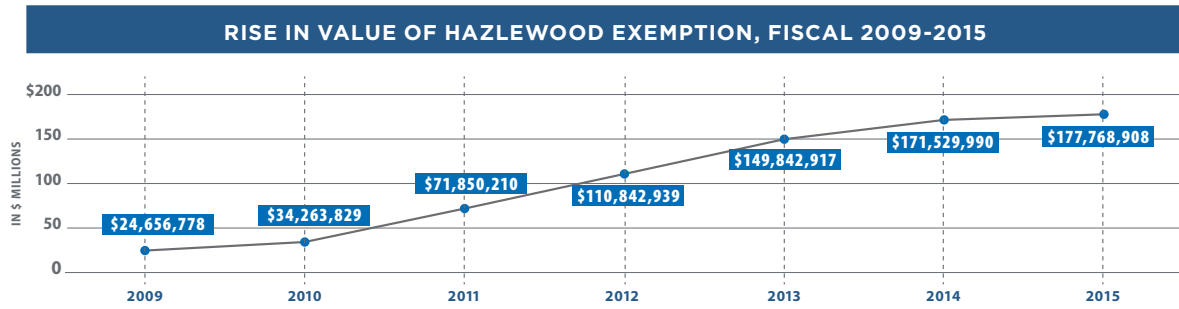
THEY ARE EMPLOYEES (MILITARY, CIVILIAN AND CONTRACTOR), RETIREES OR FAMILY MEMBERS.

JBSA IS ONE OF 15 MAJOR TEXAS MILITARY INSTALLATIONS.

To see a complete list of these installations, plus more in-depth regional and county-by-county data, visit:

TEXASAHEAD.ORG/ECONOMIC-DATA/MILITARY

EXHIBIT 1



Source: Texas Veterans Commission

Hazlewood was one of the opportunities I found.”

The exemption’s popularity, however, has pushed its costs sharply upward. Between fiscal 2009 and 2015, the value of tuition lost due to Hazlewood rose by 621 percent, from about \$25 million to \$178 million (Exhibit 1). By 2017, the Legislative Budget Board expects this figure to leap to more than \$286 million, a 61 percent increase in just two years.

AN UNDERFUNDED MANDATE

The surge in Hazlewood costs is particularly significant because colleges and universities receive relatively little in state appropriations to cover them.

Texas A&M leads the pack in the dollar value of Hazlewood exemptions, forgoing more than \$18 million in tuition in fiscal 2015 (Exhibit 2). Texas State University ranks highest in its number of exemptions awarded

(Exhibit 3), with 2,091 Hazlewood recipients in fiscal 2015 — up from just 656 in fiscal 2010, the first full year of the Legacy Program.

And again, some schools say they are recouping the cost of the exemption through higher overall tuition rates.

“Hazlewood is effectively funded primarily by other paying students,” says Dr. Eugene Bourgeois, provost and vice president for Academic Affairs at Texas State University. “We estimate at least \$500 of the annual tuition paid by full-time, non-Hazlewood students goes to replace the revenue lost as a result of the act.”

In February 2013 legislative testimony, Bourgeois called for the program to be fully funded by the state, noting that the cost of the

CONTINUED ON PAGE 4



Dr. Eugene Bourgeois
Provost and Vice President for Academic Affairs at Texas State University

EXHIBIT 2

TOP 15 EDUCATIONAL INSTITUTIONS BY VALUE OF HAZLEWOOD EXEMPTIONS GRANTED, FISCAL 2015

INSTITUTION	VALUE OF EXEMPTIONS
Texas A&M University	\$18,068,913
Texas State University	14,671,408
Texas Tech University	11,817,542
University of Texas at Austin	10,968,712
University of North Texas	10,868,798
University of Texas at San Antonio	10,663,492
University of Houston	7,799,749
University of Texas at Arlington	7,653,640
Sam Houston State University	6,095,143
University of Texas at El Paso	4,089,224
University of Texas at Dallas	3,943,098
Stephen F. Austin State University	3,940,143
Texas A&M University-Corpus Christi	3,613,624
Tarleton State University	3,257,787
Prairie View A&M University	3,232,199

Source: Texas Veterans Commission

EXHIBIT 3

TOP 15 EDUCATIONAL INSTITUTIONS BY NUMBER OF HAZLEWOOD EXEMPTIONS GRANTED, FISCAL 2015

INSTITUTION	NUMBER OF AWARDS
Texas State University	2,091
Texas A&M University	2,030
University of Texas at San Antonio	1,620
Texas Tech University	1,446
University of North Texas	1,443
University of Texas at Arlington	1,307
University of Texas at Austin	1,133
Austin Community College	1,068
University of Houston	990
Sam Houston State University	919
University of Texas at El Paso	919
Tarrant County College District	827
Alamo Community College District-San Antonio College	803
Dallas County Community College District	753
University of Texas-Pan American	695

Source: Texas Veterans Commission

Hazlewood exemption had required the university to defer faculty hires, delay the implementation of several academic programs and leave other critical campus needs unmet.

Of course, Hazlewood isn't the only reason for rising tuition costs. But it's a significant and rapidly increasing factor. At Texas State University, for instance, tuition rose by an average of about 5 percent annually between the 2009 and 2015 school years — but the exemption's cost to the university rose more than twice as fast, at an annual average of 11 percent.

COST DRIVERS

The sharp increase in the cost of the Hazlewood exemption is largely due to the 2009 introduction of the Legacy Program, offering free tuition to the children of Texas veterans. In 2015, Legacy participants made up more than 56 percent of all recipients of Hazlewood benefits and received nearly 70 percent of the total value of the exemption (**Exhibit 4**).

According to a study by Rice University's Hobby Center for the Study of Texas, an age-specific surge is contributing to rising costs, though it's likely to ease toward the end of the current decade.

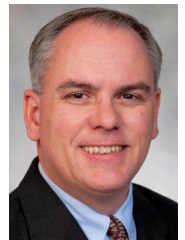
"There's a large cohort of veterans who served during the Cold War and/or the first Gulf War," says Dr. Michael Cline, associate director of the Hobby Center. "They're now in their 40s and 50s, and their children are in or about to enter college, thus contributing to the growth in Legacy exemptions."

The sharp increase in the cost of the Hazlewood exemption is largely due to the 2009 introduction of the Legacy Program.

"Despite the recent wars in Iraq and Afghanistan, however, the U.S. military has a much smaller footprint than it did in Gulf War I or in the Cold War, and thus our veteran population — and the number of their children — will be smaller in the years to come, which should help slow the growth in this program," he says.

Another factor driving usage of the exemption could be related to public awareness of military benefits in general. According to Rufus Coburn, director of the Veterans Education Program at the Texas Veterans Commission, the rapid increase in usage of the exemption since 2009 is partly attributable to "bleed-over" from the federal Post-9/11 GI Bill, which went into effect in the same year. The bill "has had a positive influence of attracting more veterans to school and to Hazlewood," Coburn says.

The Post-9/11 GI Bill provides veterans full credit for up to four years of school, as well as stipends for the cost of living and textbooks. Before this law, most veterans could rely on the federal government only for a monthly stipend that rarely covered the full costs of college. Thus the Post-9/11 GI Bill offered veterans an opportunity to go to school with a housing allowance as well as a stipend for books and supplies. Many then turned to Hazlewood to cover leftover or postgraduate expenses.



Dr. Michael Cline
Associate Director,
Hobby Center
for the Study
of Texas

HARRIS V. CANTU

According to state law, Hazlewood benefits are available to veterans who currently reside in Texas and who lived in Texas or had Texas as their home of record at the time of enlistment, or who simply enlisted in Texas.

A recent federal court decision, however, challenged this basic residency requirement, and could have had an enormous fiscal impact on the exemption had it not been overturned upon appeal.

EXHIBIT 4

THE NUMBERS OF HAZLEWOOD BENEFICIARIES AND VALUE OF EXEMPTIONS, FISCAL 2009-2015

BENEFICIARY TYPES

YEAR	VETERANS		LEGACY		SURVIVING DEPENDENTS		SURVIVING SPOUSES		TOTALS	
	NUMBER OF BENEFICIARIES	VALUE OF EXEMPTIONS	NUMBER OF BENEFICIARIES	VALUE OF EXEMPTIONS	NUMBER OF BENEFICIARIES	VALUE OF EXEMPTIONS	NUMBER OF BENEFICIARIES	VALUE OF EXEMPTIONS	NUMBER OF BENEFICIARIES	VALUE OF EXEMPTIONS
2009	9,861	\$24,611,106	0	\$0	21	\$45,672	0	\$0	9,882	\$24,656,778
2010	13,017	31,424,748	530	1,860,887	277	945,756	13	32,437	13,837	34,263,829
2011	17,869	46,319,359	2,440	12,491,785	2,245	12,925,094	31	113,972	22,585	71,850,210
2012	20,818	54,047,406	7,102	43,444,679	3,265	13,210,544	52	140,311	31,237	110,842,939
2013	24,062	65,222,321	12,129	76,120,691	1,610	7,933,786	144	566,118	37,945	149,842,917
2014	16,925	51,502,887	19,549	112,143,312	1,498	6,442,878	421	1,440,913	38,393	171,529,990
2015	14,304	43,080,621	21,781	123,840,566	2,187	9,139,980	550	1,707,740	38,822	177,768,908

Source: Texas Veterans Commission

In January 2015, a U.S. district court in Houston granted Keith Harris, a University of Houston law student, the right to Hazlewood benefits despite the fact that he was a Georgia resident at enlistment. The court ruled in *Harris v. Cantu* that “Texas may not discriminate against its more recent residents in favor of more established residents simply to control costs.”

The Texas Veterans Commission estimated the district court ruling could extend Hazlewood benefits to as many as 700,000 additional veterans currently residing in Texas. It could also have had broader implications; if the residency requirement were deemed unconstitutional, it could have paved the way for challenges to other residency-based benefits, such as in-state tuition.

The Texas Attorney General appealed the case to the Fifth Circuit Court of Appeals. Shortly before this issue went to press, the court overturned the lower court’s ruling and upheld the state’s residency requirement.

EASING THE BURDEN

The 2013 Legislature established the Permanent Fund Supporting Military and Veterans Exemptions (PFSMV) to offset Hazlewood costs. This fund is capitalized by state appropriations and gifts or grants and distributed to

The idea of attaching means testing to a veteran benefit has met with resistance.

institutions in proportion to their respective share of the total costs of Legacy exemptions. In September 2013, the Texas Guaranteed Student Loan Corporation gave \$248 million to the PFSMV. From this amount, the 2015 Legislature appropriated \$11.4 million and \$11.7 million in reimbursements to colleges and universities for fiscal 2016 and 2017, respectively. The institutions also received \$15 million for fiscal 2016 and \$15 million for fiscal 2017 in state general revenue through the Texas Veterans Commission.

The revenue is welcome, but hardly enough to cover the exemption’s full cost.

A December 2014 Legislative Budget Board report offered proposals to cope with the program’s rapidly growing cost. These centered on three main strategies: implementing socioeconomic criteria for the exemption; reducing the number of credit hours eligible for transfer to Legacy recipients; and increasing the duty time required to transfer hours to dependents.

CONTINUED ON PAGE 6



The Legislature must decide how to weigh Hazlewood benefits against their inflationary effects on tuition.

The idea of attaching socioeconomic criteria (“means testing”) to a veteran benefit has met with resistance, however.

“From a veteran standpoint, basing it on need is untenable,” says Coburn. “When soldiers are in a foxhole together, one person’s service isn’t better than another’s. Veteran benefits aren’t charity, they’re an earned benefit.”

Tying the number of free semester hours to years of military service, or capping them for Legacy recipients, may be more palatable options. Such strategies might be modeled after the Post-9/11 GI Bill, which provides benefits according to length of service.

The Hobby Center has examined several cost-savings strategies, including increasing Hazlewood-eligible service time to six years or more and implementing a six- to eight-year Texas residency requirement.

According to the center, requiring six years of service for Hazlewood benefits could reduce veteran awards by 70 percent and Legacy awards by 31 percent. A six- to eight-year residency requirement would decrease veteran awards by almost 30 percent, but would have little or no impact on Legacy awards.

Still another proposed solution is limiting the time in which the benefit can be used to 15 years after discharge.

“Adding an expiration date on the use of the Hazlewood exemption would help slow the growth in exemptions, while at the same time maintaining the program’s original intention,” says Cline. “This limitation probably would not affect the use of veteran exemptions significantly, because most attend college soon after discharge; but for a dependent to use a Legacy exemption, [he or she] would need to be at least four years old when their parent is discharged.”

2015 LEGISLATION

In the 2015 session, state Sen. Brian Birdwell authored S.B. 1735, a bill combining several of these strategies. The bill that passed out of the Senate chamber would have introduced a continuous eight-year Texas residency requirement for veterans to access any part of the benefit, and a six-year active-duty requirement before veterans could pass hours to a Legacy recipient.

It also would have established a 15-year post-discharge expiration date on Legacy benefits, and restricted Legacy recipients to 60 credit hours on an undergraduate degree only, while requiring them to

maintain a 2.5 GPA and a 24 credit-hour annual course load, and to complete a Free Application for Federal Student Aid form to ensure all available federal benefits are exhausted before Legacy hours are used.

The bill, however, caused a good deal of contention in the House, whose members expressed distaste at voting on it the day before a Memorial Day weekend. The House approved the bill only after removing a majority of its restrictions; it died in conference committee after legislators failed to reach an agreement.

Similar efforts to amend Hazlewood undoubtedly will resurface during the 2017 session.

COSTS AND BENEFITS

Texas needs to improve its college completion rates — currently well below the national average — to maintain its economic competitiveness, and few doubt the positive impact of providing veterans with an opportunity for higher education.

Hazlewood proponents further argue that veteran and Legacy benefits encourage many Texas veterans to return to the state after completing their service. Enticing these veterans back to Texas could help maintain the flow of billions of dollars in federal disability compensation and education funding into the state each year.

Yet the Legislature must decide how to weigh these benefits against their inflationary effects on tuition.

“More students coming out of high school are [from] economically underprivileged households. We have to be mindful of the price point of attendance,” says Bourgeois — and strive to keep it affordable for all. **FN**

For more information on the Hazlewood Act, visit the Texas Veterans Commission at tvc.texas.gov/Hazlewood-Act.aspx.

Efforts to amend Hazlewood undoubtedly will resurface during the 2017 legislative session.

Texas Local Sales Taxes, Part II

By John Heleman

FILING, REPORTING, ALLOCATIONS AND MORE

In the May issue of *Fiscal Notes*, we examined the history and structure of Texas local sales taxes. In this issue, we'll look at some of the mechanics of local sales taxation: how taxpayers — that is, those who are selling or using taxable items and who are responsible for remitting sales tax — report and pay; how the Comptroller's office allocates those tax dollars back to the appropriate jurisdictions; and how some related administrative issues are handled.

SINGLE POINT OF CONTACT

In Texas, local sales taxes are assessed in conjunction with the state tax, usually on the same transactions, and collected along with state sales taxes using forms designed to work together.

The agency thus provides taxpayers with a single "point of contact," a single entity that collects state and local sales taxes, audits the associated reports and answers taxpayer questions. Most states follow this model, with some regional variation. In Louisiana, for instance, sales taxpayers may pay and report both state and local taxes at the same time through a state-administered website, but other communications, including many local tax questions and all those concerning audits of local sales tax payments, must be directed to individual parish tax agencies.

In calendar 2015, the Comptroller's office collected an average of about \$669 million in local sales taxes each month (**Exhibit 1**). The agency must allocate this revenue to 1,544 separate taxing jurisdictions, based on what businesses report about their places of operation and their sales activity. (The state deducts 2 percent, deposited

CONTINUED ON PAGE 8

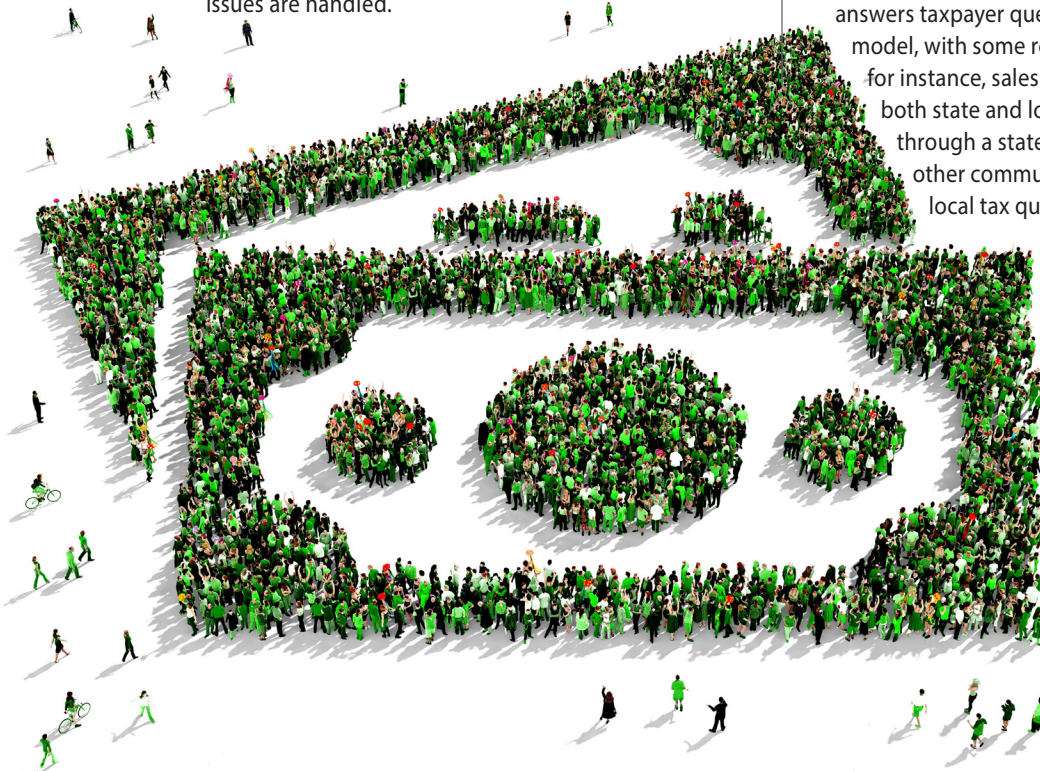


EXHIBIT 1

MONTHLY LOCAL SALES TAX COLLECTIONS BY JURISDICTION TYPE, CALENDAR 2015

MONTH	CITIES	COUNTIES	SPECIAL-PURPOSE DISTRICTS	TRANSIT AUTHORITIES	TOTALS
JANUARY	\$401,852,769	\$40,138,543	\$37,235,443	\$138,863,497	\$618,090,253
FEBRUARY	569,759,229	54,591,974	52,039,028	196,717,008	873,107,239
MARCH	381,531,251	38,553,403	35,858,943	134,059,333	590,002,930
APRIL	374,258,187	37,140,093	34,349,261	130,887,419	576,634,960
MAY	498,135,363	46,169,553	44,064,949	171,362,009	759,731,875
JUNE	409,490,384	39,341,929	37,992,687	142,358,158	629,183,158
JULY	396,350,547	37,021,463	37,180,132	139,159,056	609,711,197
AUGUST	496,115,103	46,252,617	45,950,628	171,907,322	760,225,671
SEPTEMBER	417,936,678	39,614,612	37,595,310	143,012,230	638,158,831
OCTOBER	403,524,329	37,487,232	36,971,374	138,224,239	616,207,174
NOVEMBER	481,983,957	42,828,096	43,019,225	163,881,076	731,712,354
DECEMBER	407,285,620	37,512,992	37,692,384	143,854,995	626,345,991
GRAND TOTALS, 2015	\$5,238,223,417	\$496,652,507	\$479,949,364	\$1,814,286,342	\$8,029,111,633

Source: Texas Comptroller of Public Accounts

STATE VS. LOCAL TAXABILITY

Texas' local sales taxes apply to *almost* the same set of goods and services as the state sales tax. There are two significant differences, however, both involving a relatively small number of companies reporting sales tax: telecommunications services and natural gas and electricity used by residential customers.

The residential use of natural gas and electricity was taxable under the state sales tax until 1978, when both were exempted. Cities levying a sales tax were allowed to retain (or later impose) the sales tax on residential gas and electricity — a “grandfathering” provision — by city ordinance. At this writing, 776 of Texas’ 1,150 cities with a local sales tax (and 17 special-purpose districts, authorized under a separate change in law effective Jan. 1, 2010) impose the tax on household energy use.

Similarly, the state sales tax applies to telecommunication services, while local governments may tax them only if their voters approve. Among those imposing a local sales tax, about half of Texas cities, seven of 10 metropolitan transit authorities, 38 of 123 counties and 129 of 261 special-purpose districts tax these services.

by law to the state’s General Revenue Fund, to help defray the cost of collecting, administering and auditing local sales taxes.)


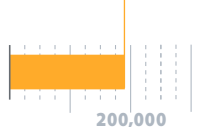

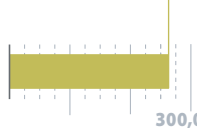

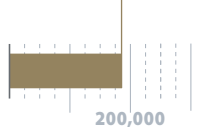
FILING AND ALLOCATION

More than 40 percent of Texas sales taxpayers remit their taxes and tax reports on a quarterly basis. Depending on the size of the business, some taxpayers remit and file monthly or annually, the latter in the case of very small businesses or those with infrequent sales.

Sellers must file a tax return even if they have no sales for the reporting period or if all their sales are nontaxable. Taxpayers who file their returns on or

Taxpayers with a single storefront can report the tax collected with a brief sales tax form only a few lines long.

WHO FILES WHEN

WHO	WHEN	FILE/PAY ONLINE	HOW MANY
<p>\$500 OR MORE MONTH</p> <p>MONTHLY FILERS</p> <p>Taxpayers who collect \$500 or more in state sales tax in a single month.</p>	<p>Monthly sales tax returns are due on or before the 20th day of the month following the month in which the taxes were collected. For example, the July return — reporting taxes collected in July — must be filed on or before August 20.</p>	<p>YES</p> <p>88 percent file and pay electronically</p> 	<p>193,929</p> 
<p>LESS THAN \$500 MONTH OR \$1,500 QUARTER</p> <p>QUARTERLY FILERS</p> <p>Taxpayers who collect less than \$500 in state sales tax in a month or less than \$1,500 in a calendar quarter.</p>	<p>Quarterly sales tax returns are due on or before the 20th day of the month following the end of the calendar quarter in which the taxes were collected. For example, the return for the first quarter (January, February and March) must be filed on or before April 20.</p>	<p>YES</p> <p>45 percent file and pay electronically</p> 	<p>261,804</p> 
<p>LESS THAN \$1,000 YEAR</p> <p>ANNUAL FILERS</p> <p>Taxpayers who collect less than \$1,000 in state sales tax per year may file annually with authorization from the Comptroller’s office.</p>	<p>Yearly sales and use tax returns are due on or before January 20th for the previous year’s activity.</p>	<p>YES</p> <p>25 percent file and pay electronically</p> 	<p>185,508</p> 

- OTHER NOTES:**
- Pre-payers — for example, those who pay June’s taxes in June rather than July — may retain an additional 1.25 percent of tax collections. Annual filers do not have the prepayment option.
 - For all filer types, if the due date falls on a Saturday, Sunday or legal holiday, the next business day is the due date.



Taxpayers paying more than \$10,000 annually in state and local sales taxes are required to remit tax money online.

total local sales tax rate by the amount of taxable sales at each outlet to get the total amount of tax due for that location.

The remaining taxpayers (about 263,000) must report their collections with a list itemizing the tax collected for each applicable local jurisdiction. These taxpayers, informally called “list filers,” generally are businesses that make certain types of online sales, sell certain taxable services or have large or complex business enterprises with numerous outlets.

Over time, increasing numbers of sales taxpayers have chosen to pay and file reports online; it’s easier and cheaper for them *and* the Comptroller’s office. Taxpayers paying more than \$10,000 annually in state and local sales taxes are required by law to remit tax money online. Taxpayers paying more than \$50,000 annually are required to file tax returns online as well. In practice, most taxpayers required to pay electronically also report electronically.

“Online” filing can mean the Comptroller website set up for this purpose, or another format such as electronic data interchange or EDI, typically used by larger taxpayers with more complex filings. Tax payments may be sent by electronic funds transfer or credit card through the Comptroller’s WebFile system, as well as by other fund transfer protocols generally used by larger taxpayers.

CONTINUED ON PAGE 10

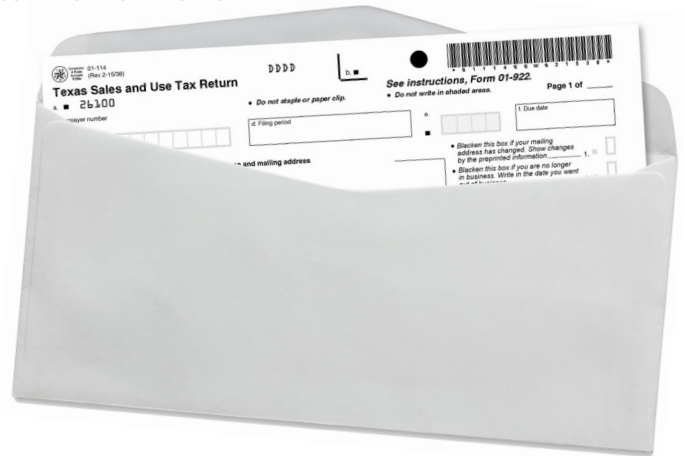
before the due date are entitled to retain 0.5 percent of the tax collections, as reimbursement for the cost of tax collection and paperwork.

Taxpayers with a single storefront (or “outlet”) can report the tax collected with a brief sales tax form only a few lines long. Most larger taxpayers, with multiple locations and (possibly) more complex transactions, must provide a lengthier form, often with supplementary sheets to fully document their sales and collections. A few taxpayers in special circumstances (such as businesses remitting tax on their own purchases rather than paying it to the vendor) use special forms tailored to their circumstances.

For a taxpayer who sells only physical goods from a “brick-and-mortar” location without more complex business dealings, the process of filing a tax return and paying — even for multiple outlets— is relatively easy. The Comptroller’s office is always willing to provide forms, instruction and advice via its website, and to help taxpayers on the phone or by email.

When a taxpayer applies for a sales tax permit, the Comptroller’s office must be notified of the address of each outlet. The agency can pinpoint exactly what local sales tax jurisdictions — and tax rates — are in force at each outlet. (These data are updated as needed to reflect current rates and boundary changes.)

For nearly 60 percent of all filers, the agency will provide paper and online sales tax forms with the appropriate local tax rate already filled in for each outlet. All the taxpayer has to do at this point is to multiply the



PAPER VS. ELECTRONIC FILING

In fiscal 1990, 35 percent of all tax dollars collected by the Comptroller’s office were sent electronically; by fiscal 2015, this share had risen to 98 percent.

The administration of local sales taxes will never be trouble-free, since one location can lie inside of two, three or more local jurisdictions.

ADMINISTRATIVE ISSUES

Certain basic issues arise repeatedly in the administration of Texas' complex web of local sales taxes. One concerns *taxability*: is a purchase taxable or not?

Exemptions for taxable items can seem ambiguous or subject to interpretation, and taxability issues can and often do arise during audits, administrative hearings, court proceedings or all three, particularly in cases involving purchases by businesses. When such events result in a finding that no tax was in fact due, state and local sales taxes paid will be refunded to the taxpayer.

Another issue arises from determining the *appropriate taxing jurisdictions* for any purchase.

Occasionally, for instance, taxpayers will move a store from one jurisdiction to another and neglect to inform the Comptroller's office of the move. The taxpayer continues to report the new location's sales under the original location, and consequently the local tax is reported and paid to the wrong jurisdiction.

Or perhaps a company opens an additional outlet, again failing to inform the Comptroller's office, and uses its sales tax forms, preprinted for the first outlet, to report sales and taxes due for both locations. In such cases, the first jurisdiction is overpaid while the second loses out.

Such missteps often are discovered in a routine audit. The Comptroller's subsequent rerouting of some local sales tax revenue can, of course, create a short-term revenue disruption for a local government, although the amounts in question generally aren't significant in terms of an entire budget. For a small jurisdiction, however, the loss of revenue due to a large refund or the rerouting of erroneously allocated revenue can cause some financial strain.

Such effects can be magnified by the state's statute of limitations, which allows issues of this sort to be addressed for up to four years after the fact, or even longer depending on various actions taken by the taxpayer.

In short, it's quite possible for a jurisdiction to lose revenue allocated (and spent) years ago to a later refund or reallocation.

A CONTINUING CHALLENGE

The single point of contact the Comptroller's office provides for all aspects of local sales tax administration benefits Texas' 640,000 sales taxpayers by making the process streamlined, consistent and workable across the state. It frees businesses from the burden of reporting and paying sales tax to multiple jurisdictions, and allows local governments to avoid administrative duties that would shift vital funding away from police, fire departments and emergency services, transportation and many other important local functions.

Over the years, Texas has worked to make the collection and payment of local sales taxes easier for businesses. Yet the administration of local sales taxes will never be trouble-free for tax authorities, since a single location can lie within two, three or more local jurisdictions. It's a continuing challenge to make sure that hundreds of thousands of Texas sales tax outlets each collect the appropriate local sales taxes — and to make the process as trouble-free as possible for sellers. **FN**

For more information on taxpayer responsibilities concerning local sales taxes, see the Comptroller's publication "Local Sales and Use Tax Collection — A Guide for Sellers" at comptroller.texas.gov/taxinfo/taxpubs.

State Revenue Watch

This table presents data on net state revenue collections by source. It includes most recent monthly collections, year-to-date (YTD) totals for the current fiscal year and a comparison of current YTD totals with those in the equivalent period of the previous fiscal year.

These numbers were current at press time. For the most current data as well as downloadable files, visit TexasTransparency.org.

Note: Texas' fiscal year begins on Sept. 1 and ends on Aug. 31.

NET STATE REVENUE — All Funds Excluding Trust

(AMOUNTS IN THOUSANDS)

Monthly and Year-to-Date Collections: Percent Change From Previous Year

Tax Collections by Major Tax	JUNE 2016	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
SALES TAX	\$2,206,633	\$23,366,581	-2.35%
PERCENT CHANGE FROM JUNE 2015	-0.76%		
MOTOR VEHICLE SALES AND RENTAL TAXES	421,713	3,750,140	1.98%
PERCENT CHANGE FROM JUNE 2015	-0.09%		
MOTOR FUEL TAXES	295,127	2,909,610	2.35%
PERCENT CHANGE FROM JUNE 2015	7.58%		
FRANCHISE TAX	49,736	3,783,077	-15.65%
PERCENT CHANGE FROM JUNE 2015	-2.85%		
INSURANCE TAXES	20,761	1,367,230	8.07%
PERCENT CHANGE FROM JUNE 2015	-12.90%		
NATURAL GAS PRODUCTION TAX	43,499	467,354	-57.69%
PERCENT CHANGE FROM JUNE 2015	-47.39%		
CIGARETTE AND TOBACCO TAXES	122,283	1,149,389	-5.55%
PERCENT CHANGE FROM JUNE 2015	-8.99%		
ALCOHOLIC BEVERAGES TAXES	102,640	983,093	5.93%
PERCENT CHANGE FROM JUNE 2015	19.86%		
OIL PRODUCTION AND REGULATION TAXES	161,639	1,402,625	-42.71%
PERCENT CHANGE FROM JUNE 2015	-25.86%		
UTILITY TAXES¹	22	300,074	-10.65%
PERCENT CHANGE FROM JUNE 2015	-97.90%		
HOTEL OCCUPANCY TAX	40,217	424,728	-0.43%
PERCENT CHANGE FROM JUNE 2015	-11.39%		
OTHER TAXES²	5,274	\$157,529	-33.03%
PERCENT CHANGE FROM JUNE 2015	-69.40%		
TOTAL TAX COLLECTIONS	\$3,469,545	\$40,061,429	-6.60%
PERCENT CHANGE FROM JUNE 2015	-3.07%		
Revenue By Source	JUNE 2016	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
TOTAL TAX COLLECTIONS	\$3,469,545	\$40,061,429	-6.60%
PERCENT CHANGE FROM JUNE 2015	-3.07%		
FEDERAL INCOME	3,306,684	33,562,180	9.01%
PERCENT CHANGE FROM JUNE 2015	-14.15%		
LICENSES, FEES, FINES AND PENALTIES	939,834	10,021,300	23.69%
PERCENT CHANGE FROM JUNE 2015	-17.15%		
INTEREST AND INVESTMENT INCOME	285,971	1,127,681	2.74%
PERCENT CHANGE FROM JUNE 2015	28.25%		
NET LOTTERY PROCEEDS³	192,304	1,865,578	17.66%
PERCENT CHANGE FROM JUNE 2015	32.01%		
SALES OF GOODS AND SERVICES	26,229	242,038	-37.67%
PERCENT CHANGE FROM JUNE 2015	-62.53%		
SETTLEMENTS OF CLAIMS	2,775	585,973	9.76%
PERCENT CHANGE FROM JUNE 2015	-63.29%		
LAND INCOME	99,895	838,891	-37.31%
PERCENT CHANGE FROM JUNE 2015	-24.07%		
CONTRIBUTIONS TO EMPLOYEE BENEFITS	5	45	-5.27%
PERCENT CHANGE FROM JUNE 2015	11.24%		
OTHER REVENUE	815,226	4,676,119	9.25%
PERCENT CHANGE FROM JUNE 2015	27.82%		
TOTAL NET REVENUE	\$9,138,469	\$92,981,234	2.17%
PERCENT CHANGE FROM JUNE 2015	-6.57%		

¹ Includes public utility gross receipts assessment, gas, electric and water utility taxes and gas utility pipeline tax.

² Includes the cement and sulphur taxes and other occupation and gross receipts taxes not separately identified.

³ Gross sales less retailer commissions and the smaller prizes paid by retailers.

Note: Totals may not add due to rounding.



FISCAL NOTES

Texas Comptroller of Public Accounts
Communications and Information Services Division
111 E. 17th St., Suite 301, Austin, TX 78774-0100

FIRST-CLASS MAIL
PRESORTED
US POSTAGE PAID
AUSTIN TX
PERMIT NO. 1411

GLENN HEGAR

Texas Comptroller of Public Accounts

Fiscal Notes is one of the ways the Comptroller's office strives to assist taxpayers and the people of Texas. The newsletter is a by-product of the Comptroller's constitutional responsibilities to monitor the state's economy and to estimate state government revenues.

Fiscal Notes also provides a periodic summary of the financial statements for the state of Texas.

Articles and analysis appearing in *Fiscal Notes* do not necessarily represent the policy or endorsement of the Texas Comptroller of Public Accounts.

Space is devoted to a wide variety of topics of Texas interest and general government concern.

Fiscal Notes is not copyrighted and may be reproduced. The Texas Comptroller of Public Accounts would appreciate credit for material used and a copy of the reprint.

FIELD OFFICES

You can find a list of all Comptroller field offices at comptroller.texas.gov/taxinfo/fieldoffice.html.

ONLINE SUBSCRIPTIONS, RENEWALS OR CANCELLATIONS of *Fiscal Notes* may be entered at comptroller.texas.gov/fiscalnotes
Send questions or comments to fiscal.notes@cpa.texas.gov
Fax: 512-463-4226 or 1-800-252-3620

HOW TO REACH US

Toll-free telephone line:
1-800-531-5441, ext. 3-3116; in Austin, 512-463-3116.

OR WRITE *Fiscal Notes*, Texas Comptroller of Public Accounts
Communications and Information Services Division
111 E. 17th St., Suite 301, Austin, TX 78774-0100

SEND QUESTIONS OR COMMENTS TO

fiscal.notes@cpa.texas.gov
Visit *Fiscal Notes* online at comptroller.texas.gov/fiscalnotes

The Texas Comptroller of Public Accounts is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age or disability in employment or in the provision of any services, programs or activities.

In compliance with the Americans with Disabilities Act, this document is available in a reader-friendly format at comptroller.texas.gov/fiscalnotes.

Contact the Communications and Information Services Division at 512-463-4900 or 1-800-531-5441, ext. 3-4900 (VOICE), 512-463-4226 (FAX), or visit the LBJ State Office Building, 111 E. 17th Street, Suite 301, Austin, Texas.

Texas Comptroller of Public Accounts
Publication #96-369,
August 2016