

- SUBJECT:** Exempting building materials for disaster repair from sales tax
- COMMITTEE:** Ways and Means — committee substitute recommended
- VOTE:** 7 ayes — Oliveira, Bonnen, Craddick, Heflin, Keffer, T. King, Sadler
0 nays
4 absent — McCall, Y. Davis, Hilbert, Ramsay
- WITNESSES:** For — Michael Coplan, Del Rio Recovers; Barbara Douglas, Lumbermen's Association of Texas
Against — None
- BACKGROUND:** In 1993, the Legislature exempted labor to restore real property damaged by disasters from the sales tax, if separately itemized on bills. The property must be located in an area declared a disaster by the governor or the president, and be damaged by the disastrous event. The sales tax exemption does not apply to tangible personal property transferred by the service provider to the purchaser.
- DIGEST:** CSHB 598 would exempt from the sales tax building materials that are used to restore a residence homestead located in a declared disaster area and damaged by the condition that caused the disaster.
- In order to qualify for the exemption, the building material would have to be a separately itemized charge, and the residence homestead would have to be restored within 18 months of a disaster declaration. Building materials would include lumber, brick, stone, paint, window glass, plumbing and electrical supplies, cleaning materials, inert solid materials to fill land, and other similar materials.
- CSHB 598 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 Texas Constitution, and it would apply only to taxes that would be imposed on or after that date. 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 on October 1, 1999.

**SUPPORTERS
SAY:**

CSHB 598 would give homeowners a financial break as they recover from disasters by eliminating the sales tax on building materials used to repair and restore their homes. It would send a message to disaster victims that the state wants to support them. Texas is especially prone to hurricanes, tornadoes, and floods. The state should do everything possible to help citizens rebuild after these events.

The average sales tax bill on building materials was \$660 for the citizens of Del Rio recovering from last year's floods. This is a substantial amount for citizens to pay at their time of greatest need. The state easily can afford to exempt building materials from the sales tax, as it already exempts labor costs associated with disaster recovery activities.

The fiscal note estimate of \$15 million per biennium is based on assumptions that disaster rebuilding would cost about \$240 million for materials. But if there was no disaster, there would be no sales tax collected for extra sales of building materials anyway, so the truth is, there would be no real loss to the state treasury. In any event, the state should not tax the misery of Texas citizens.

The bill should not limit the exemption only to people without homeowners or other property insurance. Insured homeowners still have to pay deductibles on insurance policies out of pocket, and the exemption would help cover those costs. Moreover, checkout cashiers at various points of sale should not have to verify insurance coverage, something they would not be trained to do. The amount of sales tax exempted would be relatively small compared with the value of homes, so this bill would not discourage property owners from being insured.

**OPPONENTS
SAY:**

Though the bill is well intentioned, most of its benefits actually would go to home insurance companies. For families whose property was not insured, the sales tax exemption provided by the bill would be of little value compared to the overall cost of repairs.

Rather than providing a broad sales tax exemption, the state should deposit the \$15 million generated by such sales taxes into funds available for the

governor for disaster relief. Sec. 418.022(b), Government Code, authorizes the governor to make financial grants to individuals to meet disaster-related expenses that cannot otherwise be met from other means of assistance. This approach would ensure that benefits reach the people who need the most help during times of disaster.

OTHER
OPPONENTS
SAY:

The bill ought to be applied to all real property, not just residence homesteads. Small businesses, apartment owners, and others need help to rebuild as much as homeowners.

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 exemptions. Such a report would provide the Legislature with sufficient quantitative evidence to determine whether these exemptions should be extended, modified, or eliminated.

NOTES:

The substitute would require the restoration of the property be performed within 18 months of the disaster declaration date.

The original fiscal note assumed that the number of homes that would be destroyed each year would equal the number destroyed in 1998, an unusual year for disasters. The fiscal note accompanying the substitute instead used the average number of homes destroyed during the past three years, reducing the estimate by \$27 million for the biennium to \$15 million.