

SUBJECT: Repealing the tax on certain alcoholic beverages and controlled substances

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 10 ayes — D. Bonnen, Bohac, Button, Darby, Martinez Fischer, Murphy, Parker, Springer, C.Turner, Wray

1 nay — Y. Davis

WITNESSES: For — None

Against — None

On — (*Registered, but did not testify*: Thomas Graham, Texas Alcoholic Beverage Commission; Karey Barton and Tom Currah, Texas Comptroller of Public Accounts)

DIGEST: HB 1905 would eliminate the five-cent fee on servings of alcoholic beverages sold on airplanes or passenger trains. Alcoholic beverages sold on planes and trains would remain exempt from sales taxes.

This bill also would repeal the tax on controlled substances and certain clauses that enable enforcement of the tax.

The bill would take effect September 1, 2015, and would not affect tax liability accruing before that date.

SUPPORTERS SAY: HB 1905 would actually increase state revenues because the fees on alcoholic beverages served on airplanes and trains imposes a large opportunity cost on the comptroller's resources. Resources currently spent administering and enforcing these fees would generate more revenue if they were redeployed to audit or enforcement activities for other taxes.

The tax on controlled substances is no longer collected, after a 1996 court ruling found that collecting the tax and charging the defendant with a criminal offense is double jeopardy. Because it is possible that a defendant

may escape prosecution on these grounds if the tax is paid in full before the criminal charge is filed, the state no longer attempts to collect on this tax. The tax therefore does not serve its purpose.

Additionally, these fees impose various administrative costs on consumers and businesses, reducing market efficiency. All businesses pay taxes of some sort, and the tax system should strive to make its collections as efficient as possible. Consumers, small businesses, and the state would be better off eliminating these unnecessary fees, which generate too little revenue to offset the administrative opportunity cost.

OPPONENTS
SAY:

HB 1905's elimination of these fees would have a direct negative impact on revenue, and the state should not cut revenue when it faces needs in critical areas, such as education and transportation.

This bill would eliminate fees on the grounds that they do not bring in sufficient revenue to offset the time spent collecting them. However, a fee that is comparatively less cost effective to collect should not necessarily be eliminated. Businesses should all pay their fair share because they benefit from the same systems of legal protections established and enforced by the state government.

NOTES:

The Legislative Budget Board estimates the bill would have a negative net impact of \$507,000 to general revenue through fiscal 2016-17.