



FISCAL NOTES

U.K. LEADS FOREIGN INVESTMENT IN TEXAS	7
COMPTROLLER NEWS	10

Taxing Internet Sales by Maria Garnett/Nancy Prosser

ONLINE COMMERCE AND GOVERNMENT REVENUE

In the last century, American retail has been disrupted by waves of innovation. The introduction of modern grocery stores; the rise and decline of shopping malls; the advent of “big-box” retail; each altered the playing field, producing huge economic effects and yielding new winners — and losers.

Today, retail is in the midst of another revolution: the rise of Internet sales, or e-commerce. The convenience of the online experience has shifted decades-old purchasing patterns, and younger people are particularly enthusiastic. By one estimate, Americans aged 25 to 33 spent an average of \$563 online in a single quarter of 2014.

In the U.S. alone, Internet retail sales reached \$263 billion in 2013, accounting for 8 percent of all retail sales. Technology consultant Forrester Research estimates that e-commerce sales will rise to a total of \$414 billion or 11 percent of all retail sales by 2018.

But as with earlier innovations, e-commerce has produced controversies. Many Internet retailers do not collect sales taxes, giving them an implicit price advantage over their brick-and-mortar competitors — not a small issue for companies often operating on paper-thin margins.

And, obviously, government revenues are affected as well when a substantial amount of retail activity avoids sales taxes.

SALES TAX BASICS

Today, 45 states impose state sales taxes; 38 levy local sales taxes as well (**Exhibit 1**).



States with sales taxes also impose a corresponding “use tax” at the same rate. Use taxes are intended to put in-state retailers on an equal footing with out-of-state competitors, so that the same amount of tax is collected and paid regardless of where the purchase takes place. (Generally, if a Texas business or resident pays sales tax on an item in another state and brings it into Texas, the sales tax already paid is credited against any use tax due.)

Legally, use taxes are due from the purchaser even if the seller does not collect them. Compliance with use taxes is largely voluntary, however, and unsurprisingly, it tends to be extremely low for purchases by individuals. Businesses tend to be more aware of their responsibilities to remit use tax — and are also more likely to be audited for compliance.

Among the states with sales taxes, whether state, local or both, tax rates vary widely. The Tax Foundation reports Texas’ state sales tax rate of 6.25 percent is 12th-highest in the country, while its average combined state and local rate (8.15 percent) is 11th-highest.

In Texas, the sales tax provides more than half of all state tax revenues (**Exhibit 2**).

As of March 2014, the U.S. had nearly 10,000 distinct sales tax jurisdictions, with as many as 1,515 in Texas alone, the highest number of any state by far. The

CONTINUED ON PAGE 3

EXHIBIT 1

SALES TAXATION IN THE U.S.

STATUS	NUMBER OF STATES	STATES
NO STATE OR LOCAL SALES TAX	4	DE, MT, NH, OR
STATE SALES TAX; NO LOCAL TAX	8	CT, IN, KY, ME, MD, MA, MI, RI
LOCAL SALES TAX; NO STATE TAX	1	AK
STATE AND LOCAL SALES TAXES	37	ALL OTHERS

Source: The Tax Foundation

A Message from the Comptroller

When I was a boy, you had to put your shoes on to go shopping. Barring the occasional mail-order catalog, if you needed something, you went to a store and bought it — if they had it.



Seems like ancient history, doesn't it?

One of the most striking economic changes we've seen in the last 20 years has been the astonishing rise of online shopping, which already accounts for 8 percent of all retail sales in the U.S. and seems certain to keep increasing its share.

Like all profound economic shifts, Internet sales have up-ended a lot of old business models, and in this case, they promise fundamental change for taxation as well.

Many online sellers aren't collecting sales tax. And as the world of Internet shopping accounts for an ever-greater share of our commerce, where does that leave the state and local governments that depend on sales taxes — and the services supported by those taxes?

In this issue of *Fiscal Notes*, we present a detailed examination of the issues surrounding the taxation of online sales. We also take a look at British-owned ventures in Texas. The United Kingdom is our largest source of foreign investment, spending that supports tens of thousands of Texas jobs and provides a welcome boost to local economies throughout the state.

I hope you enjoy this issue!

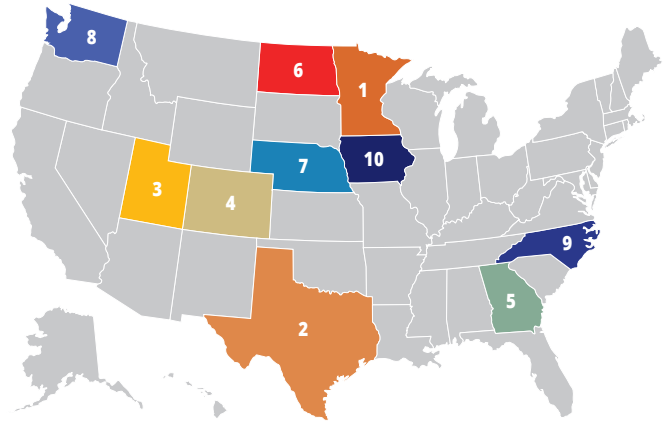


GLENN HEGAR
Texas Comptroller of Public Accounts

Texas Still a Top State for Business

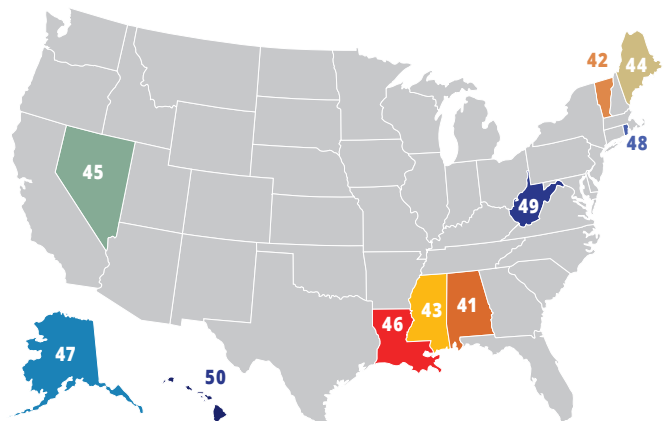
In the 2015 edition of CNBC's annual "Top States for Business" survey, Texas placed second behind Minnesota. According to CNBC, the rankings are based on "more than 60 measures of competitiveness" in areas involving business costs, quality of life, infrastructure, access to capital and more.

BEST STATES FOR BUSINESS



TOP TEN STATES

1	MINNESOTA	6	NORTH DAKOTA
2	TEXAS	7	NEBRASKA
3	UTAH	8	WASHINGTON
4	COLORADO	9	NORTH CAROLINA
5	GEORGIA	10	IOWA



BOTTOM TEN STATES

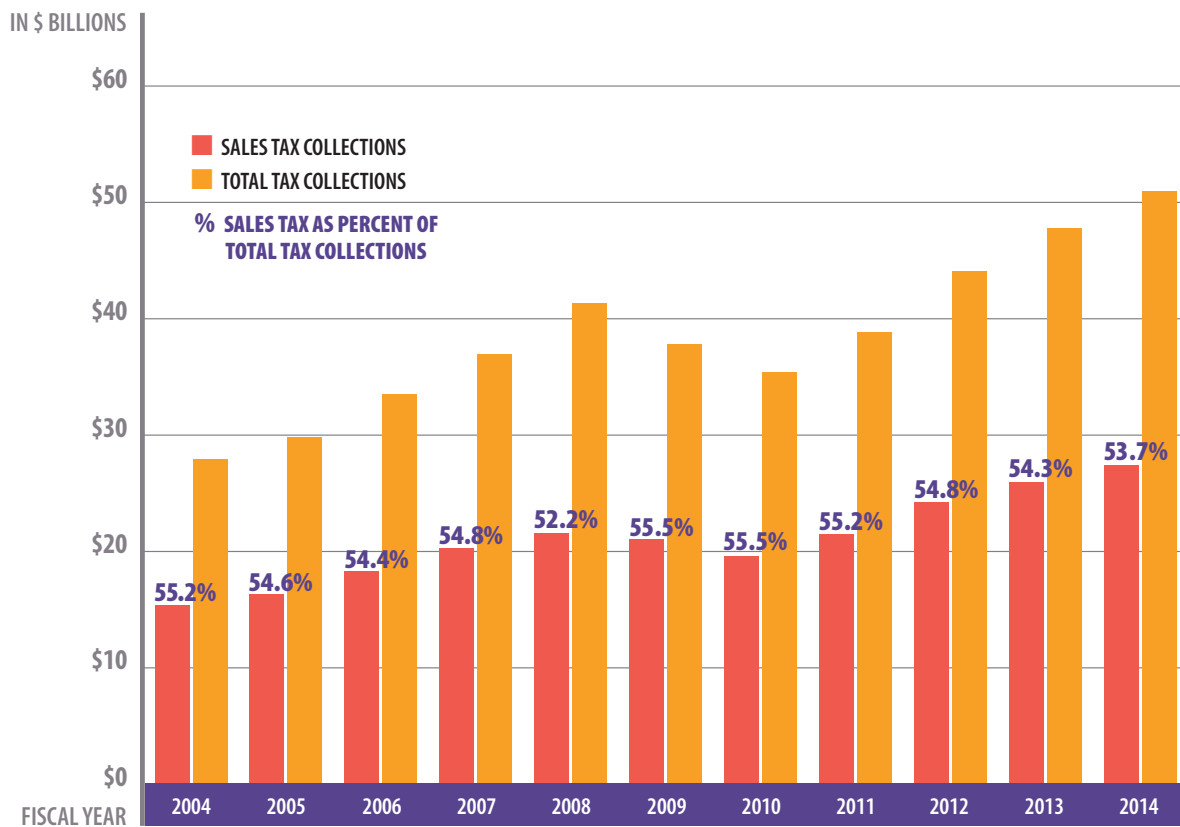
41	ALABAMA	46	LOUISIANA
42	VERMONT	47	ALASKA
43	MISSISSIPPI	48	RHODE ISLAND
44	MAINE	49	WEST VIRGINIA
45	NEVADA	50	HAWAII

Source: CNBC

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EXHIBIT 2

SALES TAX COLLECTIONS AS A SHARE OF TOTAL TAX COLLECTIONS



Source: Texas Comptroller of Public Accounts

Texas Legislature has authorized cities, counties, transit authorities and special-purpose districts to impose a local sales and use tax of up to 2 percent in addition to the current 6.25 percent state tax.

In the online world, however, jurisdictional boundaries can be traversed instantaneously. And in the case of online shopping, that's exactly what's happening.

But while e-commerce is a relatively recent innovation, differing state and local sales tax environments in a nation with extensive interstate commerce have caused complications for decades.

THE "PHYSICAL PRESENCE" RULE

In the 1967 case *National Bellas Hess v. Department of Revenue of State of Illinois*, the U.S. Supreme Court ruled that states could not require out-of-state businesses to collect and remit sales and use taxes while conducting business in the state solely through common carriers such as the U.S. Postal Service and UPS. The court sent a clear message that a state could impose collection responsibilities on an out-of-state business only if the business had a physical presence in that state. This became known as the "physical presence" rule.



With the 1977 ruling in *Complete Auto Transit, Inc. v. Brady*, the Supreme Court established a four-part test to determine when a state may impose a tax responsibility on a person engaged in interstate commerce. A particularly significant part of this test was the requirement that there be a "substantial nexus," or connection, between the state and the entity.

In the same year, the court's decision in *National Geographic Society v. California Board of Equalization*

CONTINUED ON PAGE 4

affirmed that the physical presence rule applied to the “substantial nexus” requirement established by *Complete Auto*.

The rule was affirmed yet again by the Supreme Court in 1992 with *Quill v. North Dakota*. The state had attempted to require an out-of-state office supply company to collect sales tax using an “economic” nexus standard, based on its mail-order sales in North Dakota.

According to the *Quill* decision, defining substantial nexus using the physical presence rule “firmly establishes the boundaries of legitimate state authority to impose a duty to collect sales and use taxes.” The court also noted, however, that since Congress regulates interstate commerce, it could change the standard via federal law.

After all these years, *Quill* is still the most significant Supreme Court ruling affecting online sales, although it predates the era of online shopping.

Thus, because of *Quill*, some out-of-state online merchants can legally avoid collecting and remitting taxes on their sales to in-state customers, creating a fundamental competitive disadvantage for in-state brick-and-mortar stores — and revenue losses for state and local governments.

Some researchers have attempted to estimate the value of uncollected taxes on out-of-state sales. In 2009, a University of Tennessee study estimated the nation’s total loss of state tax revenue due to untaxed online sales would rise to \$11.4 billion in 2012. It estimated that Texas would lose out on nearly \$1.8 billion in use tax revenue in that year.

Other researchers, however, believe the Tennessee study substantially overstates the potential revenue gain from taxing out-of-state online sales. Another analysis estimated nationwide uncollected taxes due to e-commerce at between \$3 billion and \$4.8 billion in 2012, with Texas’ gap pegged at between \$247.2 million and \$394.1 million.

“AFFILIATE” NEXUS AND AMAZON

When people discuss e-commerce, Amazon is the first name likely to come up, and for good reason. The online merchant dwarfs its online competitors, accounting for an astonishing 23 percent of all U.S. online retail sales in the second quarter of 2014.

Amazon founder Jeff Bezos was entirely aware of the *Quill* decision when he started selling books from a garage in Washington State. The company has

***Quill* is still the most significant Supreme Court ruling affecting online sales, although it predates the era of online shopping.**



made strategic decisions over the years to minimize its physical presence throughout the nation, and thus its obligation to collect sales and use taxes, even as it expanded its operations and offerings enormously.

In 1996, Amazon inaugurated a new business model in which it pays commissions to persons with websites any time people visiting their sites “click through” to Amazon and make a purchase. These “affiliates” are not Amazon employees; they include bloggers, small businesses and fundraising organizations.

One high school hockey team’s fundraising flier caused the New York State Department of Revenue to begin investigating Amazon’s affiliate model. The team asked the public to make Amazon purchases by clicking through its own website so it could receive commissions. New York believed the program established the required “nexus” to impose collection responsibilities on Amazon.

In 2008, the New York legislature updated the state’s tax code to specify that out-of-state sellers using a commission arrangement with New York residents must collect and remit sales and use taxes if the agreement generated more than \$10,000 from New York referrals in the preceding year. The law allows out-of-state sellers to avoid the collection responsibility if they secure statements from New York affiliates that the latter are not engaged in soliciting sales on behalf of seller.

Overstock.com had a similar business model, and both Amazon and Overstock challenged the New York law in court as a violation of *Quill*. The law was upheld by New York’s highest state court, and the U.S. Supreme Court subsequently declined to hear the case. Thus, for the time being, laws such as New York’s remain valid.

According to a 2014 survey, at least 12 states have adopted some form of affiliate or “click-through” nexus through administrative action, while another 12 have done so through legislation. In addition, Vermont has

AMAZON AND SALES TAX COLLECTIONS

AMAZON COLLECTS SALES TAX IN THESE STATES...	WHICH FEATURE...			
	AFFILIATE NEXUS LEGISLATION	AMAZON AFFILIATES	AMAZON PHYSICAL LOCATION	NOTES
CALIFORNIA, CONNECTICUT, KANSAS, NEW JERSEY, PENNSYLVANIA	YES	YES	YES	New Jersey passed affiliate nexus legislation most recently
NEW YORK, NORTH CAROLINA, MICHIGAN, MINNESOTA, ILLINOIS, GEORGIA	YES	YES	NO	New York became the first state to pass affiliate nexus legislation in 2008; Michigan did so most recently, in January 2015
WASHINGTON, NORTH DAKOTA, NEVADA, MASSACHUSETTS, ARIZONA, INDIANA, KENTUCKY, MARYLAND, TENNESSEE, TEXAS , VIRGINIA, WISCONSIN, FLORIDA	NO	NO	YES	These states require Amazon to collect sales taxes under the current Quill/physical presence rule

Sources: Amazon; Institute for Local Self-Reliance; San José State University; TaxJar

Many states want federal legislation to address Internet sales taxation; 11 have already announced plans for the additional revenue should a federal law be enacted.

passed a click-through law it plans to implement when at least 15 other states have adopted similar legislation.

Meanwhile, Amazon has attempted to limit the impact of affiliate legislation. The company severed its relationships with affiliates in six states — Arkansas, Colorado, Maine, Missouri, Rhode Island and Vermont — upon their passage of affiliate nexus legislation (**Exhibit 3**). It also negotiated agreements with some states to delay its tax collection responsibility.

In all, Amazon now collects sales taxes in 24 states. The company has a physical presence — a warehouse or other facility — in 18 of them, including Texas.

COLORADO'S REPORTING STATUTE

Colorado responded to *Quill* with a 2010 law that allows out-of-state sellers either to collect and remit taxes on in-state sales or to report them to the Colorado Department of Revenue and notify purchasers that use tax may be due.

Colorado believes its use tax collections may increase if purchasers are informed of the law and the state has the information it needs to follow up with them. Because no seller is forced to collect and remit taxes, but can instead choose to provide sales information to the state, Colorado believes the law meets the requirements of *Quill*.

An organization called the Direct Marketing Association (DMA) is challenging Colorado's law on several grounds, including *Quill*. The case, *DMA v. Brohl*, is currently pending before the 10th Circuit Court of Appeals.

STREAMLINED SALES AND USE TAX AGREEMENT

States also have worked together to sort out their post-*Quill* difficulties. For nearly 15 years, many have attempted to harmonize their sales and use tax policies and procedures, including those for online commerce, through the Streamlined Sales and Use Tax Agreement (SSUTA).

SSUTA is designed to reduce the burden on sellers by requiring member states to adopt uniform definitions for taxable goods and services, and to provide out-of-state sellers with access to software that reduces the complexities involved with differing state filing requirements. The theory is that these steps may persuade the Supreme Court or Congress to overturn *Quill's* physical presence rule.

At this writing, 24 states with about a third of the U.S. population have joined in the SSUTA. Without buy-in from large states, however — and none of the five most populous states are participating, including Texas — the agreement is unlikely to gain much more traction.

FEDERAL LEGISLATIVE EFFORTS

Many states want federal legislation to address Internet sales taxation; 11 have already announced plans for the additional revenue should a federal law be enacted.

The most prominent recent federal effort to overturn *Quill* and address Internet sales is the Marketplace Fairness Act of 2013, S.743, which passed the Senate but ultimately died in the 113th Congress (2013-2015). Essentially the same bill has been refiled in Congress as S.698.

The act, supported by organizations such as the National Conference of State Legislatures (NCSL), the Tax Foundation and the National Governors Association, would establish federal guidelines for sales by out-of-state retailers without a physical presence in a state, and

CONTINUED ON PAGE 6

As online shopping continues to grow, some clarifying federal legislation or updated guidance from the Supreme Court seem inevitable.

simplify tax procedures within states. States would have the choice of joining SSUTA or modifying their existing tax systems in accordance with minimum standards outlined in the bill.

At an October 8, 2014 hearing of the Texas House Ways and Means Committee, Comptroller staff testified that state government could gain \$800 million annually if a bill such as the Marketplace Fairness Act became law; Texas local governments would gain \$200 million.

Another potential bill, the Online Sales Simplification Act (OSSA), has been proposed but not, at this writing, formally introduced by the chair of the U.S. House Judiciary Committee. OSSA would address Internet sales through a concept called “hybrid-origin sourcing.”

This would require states to change their laws so that the seller’s state (the origin state) generally would determine taxability and the amount of tax due, as opposed to the purchaser’s state of residence (the destination state). Sales tax revenue collected by the origin state would be transferred to the destination state via an agreement and system established by the states, thus creating a “hybrid” tax system.

Currently, most states with sales and use taxes employ “destination sourcing,” considering the tax on all sales to be due at the buyer’s location. Texas, by contrast, generally uses “origin sourcing” for sales within the state, and destination sourcing for sales by out-of-state sellers.

OSSA is opposed by groups such as NCSL and the Tax Foundation because it would require a massive restructuring of state tax laws, policies and procedures, and because it would require individuals in one state to pay taxes at rates set in other states.

Furthermore, OSSA doesn’t eliminate the key problem of competitive disparities among sellers: in-state sellers would be forced to collect and remit taxes at different rates than those charged by out-of-state sellers.

Yet another approach to Internet sales taxation is embodied in the Remote Transactions Parity Act (RTPA), introduced in Congress on June 15 as H.R. 2775. The RTPA, which has garnered the support of groups such as NCSL, incorporates some features of the Marketplace Fairness Act but offers greater audit protection for small businesses.

WHAT COMES NEXT?

As online shopping continues to grow and the associated business models evolve, some clarifying federal legislation or updated guidance from the Supreme Court seem inevitable.

Indeed, in early March 2015, Justice Anthony Kennedy — who sat on the court that decided *Quill* — used a concurring opinion in *DMA v. Brohl* to indicate he believes the court made an error in its *Quill* ruling, and that it is high time to rectify it:

The Internet has caused far-reaching systemic and structural changes in the economy, and, indeed, in many other societal dimensions.... Given these changes in technology and consumer sophistication, it is unwise to delay any longer a reconsideration of the Court’s holding in *Quill*. A case questionable even when decided, *Quill* now harms States to a degree far greater than could have been anticipated earlier.

As Justice Kennedy notes, the landscape for sales and use taxes across the U.S. is more complex and more subject to technological change than ever before — and this is likely to remain the case, as the Internet becomes faster and more ubiquitous. These changes have major implications for states that rely heavily on sales tax revenues.

But the way forward is unclear until Congress or the Supreme Court take action. **FN**

SELLING TEXAS BY THE POUND

Texas has led the nation in recent economic growth, and one facet of its success is reflected in the amount of investment it attracts from foreign nations.

Foreign direct investment (FDI) occurs when a foreign company finances a U.S. business enterprise, through activities such as the opening of new facilities or the expansion of existing ones (called “greenfield” investments) as well as joint ventures, mergers and acquisitions (called equity investments). FDI creates new jobs and can introduce innovative technologies, management strategies and workforce practices.

It’s easy to see why companies choose to invest in Texas, a state that perennially appears at or near the top of rankings for business climate. In 2013, Texas attracted \$26.4 billion from around the world, or more than 12 percent of all FDI in the U.S., according to the *Financial Times* and Bloomberg, and ranked third in the nation for FDI investments between 2009 and 2013, behind only California and New York.

Today, Texas hosts more than 1,400 foreign corporations employing 5 percent of the state’s private workforce. And the United Kingdom (U.K.) is the state’s largest single source of FDI.

CONTINUED ON PAGE 8

TOP FIVE INDUSTRIES FOR U.K. GREENFIELD FDI IN TEXAS

1

ENERGY

2

IT & ELECTRONICS

3

PROFESSIONAL SERVICES

4

INDUSTRIAL GOODS

5

TRANSPORTATION EQUIPMENT

Note: Greenfield projects involve the construction or expansion of facilities in Texas.

Source: Texas Office of the Governor



Photo courtesy of the Weir Group plc.

BUYING INTO TEXAS

About 22 percent of Texas' foreign investment projects come from U.K. firms. At present, more than 204 U.K. companies have nearly 484 operations in the state.

The Governor's Office reports that 229 U.K. green-field and equity projects were initiated in Texas from 2009 to 2013, with energy as the leading sector for investment. These projects involved investments of nearly \$23.5 billion.

And their impact has been quite substantial. According to the Brookings Institution, U.K. investments accounted for an estimated 87,800 Texas jobs in 2011, or about 19 percent of all employment with foreign companies in the state.

One U.K. energy company operating in Texas is the Weir Group, an engineering firm specializing in minerals and oil and gas production.

The Weir Group initially expanded into Texas in 2007 by acquiring SPM Flow Control Inc. Its continued growth in Texas is the result of multiple mergers with and acquisitions of Texas businesses, including Mesa Manufacturing in Odessa and Seaboard Holdings in

Houston. The Weir Group has invested more in Texas than in any other state.

Since 2007, Weir has spent about \$1.8 billion in acquiring Texas businesses and invested another \$200 million on its operations in the state. In all, the company generates about \$1.25 billion of revenue annually from its Texas operations.

In Texas, the Weir Group spends approximately \$230 million on payroll and supplies annually. Most of the company's 1,332 employees in the state are Texans who earn average annual salaries of \$90,000, nearly twice the 2014 average Texas wage of \$45,333 reported by the Texas Workforce Commission.

"We're big believers in business being run by people who are in the markets and the locations where they're from," says Andrew Neilson, Weir's director of Strategy and Corporate Affairs.

WHY TEXAS?

Neilson says his organization has found Texas an especially appealing location for many of its operations, echoing the many surveys that place the state at or near the top for business friendliness.

U.K. investments accounted for an estimated 87,800 Texas jobs in 2011, or about 19 percent of all employment with foreign companies in the state.



Photo courtesy of the Weir Group plc.

MAJOR U.K. COMPANIES OPERATING IN TEXAS

**BAE SYSTEMS
BP
INVENSYS
ROLLS ROYCE
SAGE
WEIR GROUP
WOOD GROUP**

Source: Texas Office of the Governor

“Texas is one of the better places to do business,” he says. “The combination of taxation, planning, labor laws and the like are all sensible and let us manage our business as best we can.”

Texas’ central location and large area also provide significant advantages. With 16 seaports, 26 commercial airports and an extensive interstate highway network, Texas-based companies can serve customers throughout the nation quickly and efficiently.

Texas also benefits from its world-class energy sector, says Leah Mayo, head of trade and investment for U.K. Trade & Investment (UKTI) in Houston. (UKTI is the commercial arm of the U.K. government, which works with U.K. businesses to ensure their success in international markets.)

“If you’re in oil and gas, you know you need to come to Texas,” Mayo says.

Neilson echoes her sentiment. “Our strategy is to be close to end customers and the markets they’re in, so having something in Texas made sense to us,” he says.

And while U.K. companies focus heavily on Texas energy, British Consul General in Houston Andrew Millar says that U.K. investments are “becoming ever more

diverse as the Texas economy diversifies,” into sectors ranging from medical life science to commercial space exploration.

“Texas is a major economy in its own right, larger than South Korea,” Millar says. “There is a real sense that Texas is a growing economy and companies want to get involved in that.”

A UNIQUE BRAND

Despite its success in attracting foreign companies, some barriers remain that may discourage potential investors in Texas.

“One of [companies’] biggest concerns is finding their workforce,” says Michael Treyger, manager of the

International Business Office at the Texas Governor’s Office, noting that some trained trade workers are relatively scarce in the state.

The availability of venture capital (VC) is another limitation. U.K. firms seeking venture capital for startups, Mayo says, generally invest in New York and California, which offer more extensive VC opportunities.

In addition, despite consistent Texas investments by U.S.-based technology giants such as Dell and Google, Mayo says that some foreign companies have preconceived notions about the strength and sophistication of some of the state’s industries, such as its technology sector. On the international stage, Texas energy still overshadows other industries.

Despite such challenges, Millar says Texas is well positioned for continued success.

“Texas has a unique brand in the U.S.,” he says. “Texas is big, it’s out there and it celebrates its success. Events like Formula One and South by Southwest are making people aware of Texas in a different way, more than the traditional cowboys and oilmen.”

As the Texas economy continues to diversify, the state can create a more robust brand.

Until then, the Weir Group continues to be satisfied with its Texas expansion.

“For us, Texas feels like a second home,” Neilson says. **FN**



MICHAEL TREYGER

MANAGER OF THE INTERNATIONAL BUSINESS OFFICE AT THE TEXAS GOVERNOR’S OFFICE



ANDREW MILLAR

BRITISH CONSUL GENERAL, HOUSTON



LEAH MAYO

HEAD OF TRADE AND INVESTMENT FOR UKTI IN HOUSTON

BRITISH TEXAS

The United Kingdom is Texas’ largest source of foreign investment. Recent acquisitions of Texas companies by British firms include:

TEXAS COMPANY	LOCATION	SECTOR	YEAR	ACQUIRING COMPANY
ZALE CORP.	IRVING	JEWELRY RETAIL	2014	SIGNET JEWELERS LTD.
ARTHROCARE	AUSTIN	MEDICAL DEVICES	2013	SMITH & NEPHEW PLC
BOTTLE ROCKET CORP.	DALLAS	SOFTWARE	2013	WPP PLC
MUTUAL MOBILE	AUSTIN	SOFTWARE	2013	WPP PLC
HEALTHPOINT BIOTHERAPEUTICS	FORT WORTH	PHARMACEUTICALS	2012	SMITH & NEPHEW PLC
WEST ENGINEERING SERVICES	HOUSTON	OILFIELD SERVICES	2012	LLOYD’S REGISTER GROUP

Source: Texas Office of the Governor

STATE WILL NOT ISSUE DEBT FOR CASH-FLOW MANAGEMENT IN 2016

On July 7, Texas Comptroller Glenn Hegar announced that, for the first time since 1986, his agency will not issue Tax and Revenue Anticipation Notes (TRANs) to assist the state's cash management efforts in the coming fiscal year.

The state has used these short-term (one year or less) debt obligations to counter temporary cash-flow mismatches that arise during the fiscal year.

These mismatches result primarily from the fact that the state "front-loads" its funding for public education, issuing about half of its payments to local school districts in the first three months of each fiscal year, before most of that year's tax revenues have been collected. The state issued schools nearly \$9.6 billion in Foundation School Program payments in the first quarter of fiscal 2015, for instance, a little more than 49 percent of the total for the year.

TRAN revenue has been used to help keep the state's books in the black until more tax revenues flow in. In the last decade, the total amount of TRANs issued each year generally has varied between about \$5 billion and \$10 billion; the state issued about \$5.4 billion in TRANs for fiscal 2015.

For the coming fiscal year, however, the new biennial budget, which fell well below the state's spending caps, will allow the state to meet its cash-flow needs without a TRAN issue.

The state will address any difficulties by borrowing temporarily from its own funds rather than going to private investors.

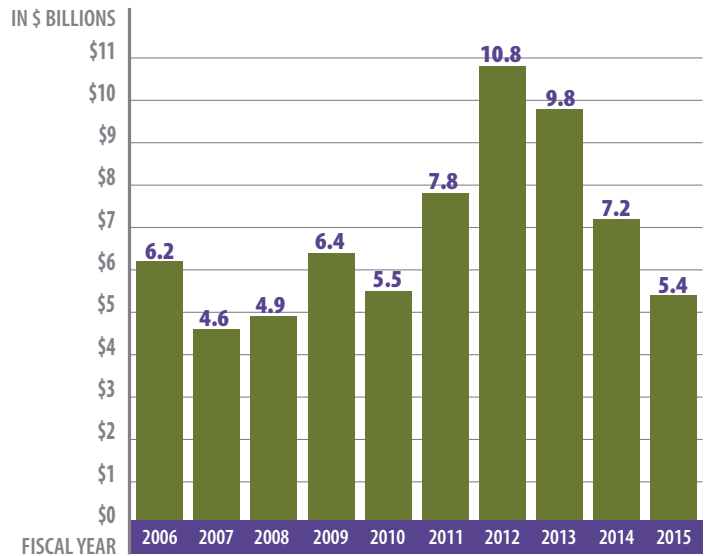
"Right now, we have more than \$6 billion in general revenue and about \$8.5 billion in the state's Rainy Day Fund," Hegar says. "We can put this money to work for the taxpayers, avoiding additional debt, and repay any funds we borrow with state revenues as they're received."

ANNUAL ISSUES OF TEXAS TAX AND REVENUE ANTICIPATION NOTES

FISCAL 2006-2015

STAYING IN THE BLACK

Between 1986 and 2015, the Texas Comptroller's office annually issued short-term debt instruments called Tax and Revenue Anticipation Notes (TRANs) to assist the agency in maintaining the state's cash position throughout the fiscal year.



Source: Texas Comptroller of Public Accounts

"We're fortunate that the state's financial position allows us to do this," he says. "Most Texans know that avoiding unnecessary debt simply makes good financial sense. Whether it's the state budget or a household budget, it's the responsible thing to do."

While it's too early to say whether the Comptroller's office will be able to avoid the use of TRANs in fiscal 2017, Hegar promises his agency will keep a sharp eye on the situation.

"Any time we can avoid adding to the state's debt, we will," he adds. **FN**



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 September 1 and ends on August 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 2015	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
SALES TAX	\$2,223,565	\$23,929,004	6.55%
PERCENT CHANGE FROM JUNE 2014	-1.37%		
MOTOR VEHICLE SALES AND RENTAL TAXES	422,087	3,677,284	8.23%
PERCENT CHANGE FROM JUNE 2014	8.85%		
MOTOR FUEL TAXES	274,324	2,842,821	3.60%
PERCENT CHANGE FROM JUNE 2014	-5.77%		
FRANCHISE TAX	51,195	4,485,187	-2.00%
PERCENT CHANGE FROM JUNE 2014	1.29%		
INSURANCE TAXES	23,837	1,265,118	3.23%
PERCENT CHANGE FROM JUNE 2014	-15.06%		
NATURAL GAS PRODUCTION TAX	82,690	1,104,668	-26.12%
PERCENT CHANGE FROM JUNE 2014	-54.04%		
CIGARETTE AND TOBACCO TAXES	134,357	1,216,908	10.14%
PERCENT CHANGE FROM JUNE 2014	14.12%		
ALCOHOLIC BEVERAGES TAXES	85,635	928,073	6.54%
PERCENT CHANGE FROM JUNE 2014	-13.70%		
OIL PRODUCTION AND REGULATION TAXES	218,031	2,448,247	-22.06%
PERCENT CHANGE FROM JUNE 2014	-35.59%		
INHERITANCE TAX	8	(3,817)	-33,166.90%
PERCENT CHANGE FROM JUNE 2014	N/A		
UTILITY TAXES¹	1,055	335,831	3.06%
PERCENT CHANGE FROM JUNE 2014	0.33%		
HOTEL OCCUPANCY TAX	45,385	426,566	8.57%
PERCENT CHANGE FROM JUNE 2014	-0.26%		
OTHER TAXES²	17,237	235,236	7.54%
PERCENT CHANGE FROM JUNE 2014	-32.84%		
TOTAL TAX COLLECTIONS	\$3,579,407	\$42,891,127	2.24%
PERCENT CHANGE FROM JUNE 2014	-6.29%		
Revenue By Source	JUNE 2015	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
TOTAL TAX COLLECTIONS	\$3,579,407	\$42,891,127	2.24%
PERCENT CHANGE FROM JUNE 2014	-6.29%		
FEDERAL INCOME	3,851,680	30,788,331	6.43%
PERCENT CHANGE FROM JUNE 2014	-9.87%		
LICENSES, FEES, PERMITS, FINES AND PENALTIES	1,134,330	8,101,763	14.15%
PERCENT CHANGE FROM JUNE 2014	-15.80%		
INTEREST AND INVESTMENT INCOME	222,971	1,097,621	2.43%
PERCENT CHANGE FROM JUNE 2014	189.46%		
LOTTERY PROCEEDS³	145,678	1,585,612	-0.12%
PERCENT CHANGE FROM JUNE 2014	6.42%		
SALES OF GOODS AND SERVICES	70,004	388,314	79.97%
PERCENT CHANGE FROM JUNE 2014	184.80%		
SETTLEMENTS OF CLAIMS	7,561	533,869	-5.49%
PERCENT CHANGE FROM JUNE 2014	315.53%		
LAND INCOME	131,563	1,338,219	-12.39%
PERCENT CHANGE FROM JUNE 2014	-10.95%		
CONTRIBUTIONS TO EMPLOYEE BENEFITS	4	48	-36.77%
PERCENT CHANGE FROM JUNE 2014	-24.47%		
OTHER REVENUE SOURCES	637,777	4,280,390	3.98%
PERCENT CHANGE FROM JUNE 2014	12.01%		
TOTAL NET REVENUE	\$9,780,976	\$91,005,294	4.53%
PERCENT CHANGE FROM JUNE 2014	-5.93%		

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

2- Includes the cement and sulphur taxes and other occupation and gross receipt 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.



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