

# Notice

## Changes Concerning the Collection and Reporting of Local Sales and Use Taxes

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If you sell taxable items in Texas, please note that several pieces of recent legislation change the way local sales and use taxes are collected. This notice summarizes the changes to help you and your customers understand the new laws and collection requirements.

We are also updating the information in publication 94-105, "Guidelines for Collecting Local Sales and Use Tax," available online at [window.state.tx.us/taxinfo/taxpubs/tx94\\_105.pdf](http://window.state.tx.us/taxinfo/taxpubs/tx94_105.pdf).

All the bills identified below were passed by the 80th Legislature and have an effective date of Sept. 1, 2007.

#### House Bill 142 – Change of Location for Imposition of Transit Taxes

Beginning Sept. 1, 2007, sellers will collect sales taxes for all transit jurisdictions including advanced transportation districts (ATDs), county transit authorities (CTAs), city transit departments (CTDs) and metropolitan transit authorities (MTAs) based on the seller's place of business instead of the point of delivery, unless an exception applies as noted below. This change means that local transit taxes will now be collected in the same manner as all other local sales and use taxes. The law change does not apply to sales of waste removal services, cable television services, amusement services, natural gas and electricity, nonresidential repair or remodeling services, contractors or telecommunications services. Sellers of these items should continue to collect local sales and use taxes as outlined in publication 94-105.

Under current law, transit sales and use taxes are due based on where an item is delivered, meaning that a seller with a place of business in a transit jurisdiction only collects the transit tax on sales of taxable items shipped or delivered to a location within the boundaries of a transit jurisdiction. Transit sales and use tax is not collected on sales made outside of the transit jurisdiction.

Under HB 142, **transit sales taxes will be due based on the location of the seller's place of business** and will be collected on all sales of taxable items shipped or delivered to a location in Texas from a place of business inside the boundaries of a transit jurisdiction, including sales shipped or delivered outside the boundaries of the transit authority.

For example, Houston imposes a 1 percent city sales and use tax and a 1 percent Houston MTA sales and use tax. Under current law, a seller in Houston only collects the transit tax on sales of items shipped or delivered within the boundar-

ies of the Houston MTA. Therefore, when a Houston seller ships or delivers taxable products to a location outside of the Houston MTA, the 1 percent Houston city sales tax must be collected but the 1 percent Houston transit tax is not collected. Sellers may be responsible for additional local taxes if they are engaged in business in the local jurisdictions.

Beginning Sept. 1, the same Houston seller will collect both the 1 percent city and 1 percent MTA local sales taxes on all sales of taxable items shipped or delivered from the Houston place of business **to a location anywhere in Texas**. And, because the seller has now collected local taxes on the sale up to the 2 percent cap, the seller has no responsibility to collect additional local use taxes even if the seller does business in other local jurisdictions where the taxable items are delivered.

Overall, beginning Sept. 1, sellers in Dallas, Fort Worth, Austin, Laredo, El Paso, Corpus Christi, Denton and Houston will collect 8.25 percent sales tax on all sales of taxable goods shipped or delivered in Texas and will have no responsibility to collect any other local sales or use taxes on those sales. (The San Antonio sales tax rate is 8.125 percent.)

The changes made under HB 142 apply to all sellers located in transit jurisdictions, including those taxpayers in towns and unincorporated areas located in transit jurisdictions. For example, sellers in Jonestown, Lago Vista, Leander, Manor, Point Venture, San Leanna and Volente are located inside the boundaries of the Austin MTA and thus are also affected by this change.

A complete list of the transit jurisdictions, including the various cities and other areas that are within the boundaries of the transit authorities, is available online at [window.state.tx.us/taxinfo/local/mta.html](http://window.state.tx.us/taxinfo/local/mta.html).

#### House Bill 3319 – Nonresidential Repair and Remodeling

Effective Sept. 1, 2007, all persons providing nonresidential repair and remodeling services must collect local sales and use taxes based on the location of the job site – not the service provider's place of business. This conforms with how local taxes are collected on separated contracts for new construction and residential remodeling. Contractors can now use a single method for collecting local taxes.

For example, assume a contracting company located in El Paso is hired to remodel a commercial structure in Culberson County, outside of the boundaries of any local taxing

jurisdictions. Although the service provider's place of business is located in an area with a sales tax rate of 8.25 percent, because the nonresidential repair and remodeling service is being performed outside the boundaries of any local taxing jurisdictions the service provider should just collect the state sales tax of 6.25 percent.

Likewise, a service provider located in Culberson County performing nonresidential repair or remodeling on a structure in El Paso is required to collect the local El Paso city, county and transit sales and use taxes for a total tax rate of 8.25 percent on the entire amount billed for the project.

### **House Bill 3319 – Repeals Previous Changes Under House Bill 2425 (78th Regular Legislative Session, 2003)**

This legislation formally repeals previous legislation that would have changed the way local taxes were collected. That previous legislation was not implemented due to concerns raised by members of the Texas Legislature and businesses throughout the state about the significant and far-reaching effects of those changes.

Effective Sept. 1, 2007, taxable service providers, unless an exception as noted below applies, should collect local sales

taxes based on their place of business. This change does *not* apply to sales of waste removal services, cable television services, amusement services, natural gas and electricity, nonresidential repair or remodeling services, contractors or telecommunications services. Sellers of these items should continue to collect local sales and use taxes as outlined in "Guidelines for Collecting Local Sales and Use Tax."

For example, a pest control company located in Dallas will collect 8.25 percent sales tax, consisting of 6.25 percent state sales tax, 1 percent Dallas city sales tax and 1 percent Dallas MTA transit tax on all taxable services originating from the Dallas location and provided in Texas.

A taxpayer whose place of business is located in an area with a total sales tax rate of less than 8.25 percent may still be required to collect additional local use taxes based on the job site/point of delivery, if engaged in business in those local jurisdictions. See publication 94-105, "Guidelines for Collecting Local Sales and Use Tax," for complete information about the collection of local sales and use taxes.

We hope this information explains your local sales and use tax collection responsibilities. If you have any questions, call us toll free at (800) 252-5555, or in Austin at (512) 463-4600 or e-mail us at [tax.help@cpa.state.tx.us](mailto:tax.help@cpa.state.tx.us).