

By: Dean

H.B. No. 116

A BILL TO BE ENTITLED

AN ACT

relating to the repeal of or limitations on certain state and local taxes, including school district maintenance and operations ad valorem taxes, the enactment of state and local value added taxes, related school finance reform, and directing the comptroller to identify alternatives to local ad valorem taxes; imposing taxes.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

ARTICLE 1. REPLACING SCHOOL DISTRICT M&O TAX WITH VALUE-ADDED TAX.

SECTION 1.01. Repeal of school district M&O authority.

(1) Chapter 48, Education Code, and any other relevant statutes are amended to prohibit a school district from levying a maintenance and operations (M&O) ad valorem tax beginning with the 2030 tax year.

(2) Any provision of law authorizing the collection or enforcement of M&O ad valorem taxes by school districts is repealed effective January 1, 2030.

SECTION 1.02. Value-Added Tax Imposed.

(1) Subtitle E, Title 2, Tax Code, is amended by adding Chapter 165, Value-Added Tax.

(2) A state value-added tax is imposed on the value added to goods and services at each stage of production or distribution.

(3) The initial rate of the state value-added tax shall be 6.72% unless otherwise set by legislative act.

(4) All revenue generated by the state VAT shall be

1 deposited into the Foundation School Fund and used exclusively to  
2 fund public education operations previously funded by school M&O  
3 property taxes.

4 (5) The comptroller shall adopt rules, forms, and  
5 procedures necessary to administer the tax in accordance with  
6 principles of efficiency, equity, and transparency.

7 (6) The state VAT authorized under this section takes effect  
8 January 1, 2030.

9 SECTION 1.03. This article takes effect January 1, 2030,  
10 but only if on or before that date a constitutional amendment to  
11 prohibit a school district from imposing an ad valorem tax for  
12 maintenance and operations purposes is approved by the voters. If  
13 such a constitutional amendment is not approved by the voters on or  
14 before that date, this section has no effect.

## 15 ARTICLE 2. REPEALED PROVISIONS

### 16 SECTION 2.01. Tax Code.

17 (1) The following provisions of the Tax Code are repealed:

- 18 (a) Chapter [142](#);
- 19 (b) Subtitles E, F, G, H, and J, Title 2; and
- 20 (c) Subtitle C, Title 3.

21 (2) The repeal of a provision by this section does not  
22 affect tax liability accruing before the effective date of this  
23 article. That liability continues in effect as if this article had  
24 not been enacted, and the former law is continued in effect for the  
25 collection of taxes due and for civil and criminal enforcement of  
26 the liability for those taxes.

### 27 SECTION 2.02. Education Code.

(1) The following provisions of the Education Code are repealed:

(a) Sections 45.0032, 48.255, 48.2551, 48.2552, 48.2553, 48.256, 48.257, and 48.275; and

(b) Chapter 49.

(2) This section takes effect only if Article 1 of this Act takes effect. If Article 1 of this Act does not take effect, this section has no effect.

ARTICLE 3. COMPTROLLER REVIEW AND RECOMMENDATIONS ON LOCAL  
PROPERTY TAX REPLACEMENT

SECTION 3.01. Comptroller Study and Legislative  
Recommendations.

(1) The comptroller of public accounts shall conduct a comprehensive study of the mechanisms, feasibility, and policy impacts of replacing all local property taxes, including those levied by counties, municipalities, and special districts, with local value-added taxes.

(2) The study must include, but is not limited to:

(a) Revenue needs and tax capacity of local jurisdictions,

(b) Rate structures for local VATs sufficient to replace current property tax revenues,

(c) Administrative models and compliance frameworks,

(d) Economic and distributional impacts,

(e) Constitutional or statutory amendments required,  
and

(f) Covering voter-approved bond payments and debt.

1           (3) In completing the study and review, the comptroller  
2 should consult with local elected officials from local taxing  
3 entities.

4           (4) The comptroller shall deliver the report with findings  
5 and detailed legislative recommendations to the governor,  
6 lieutenant governor, speaker of the house, and appropriate  
7 legislative committees no later than December 1, 2026.

8           SECTION 3.02. It is the intent of the legislature to use the  
9 comptroller's recommendations to draft and introduce legislation  
10 during the 90th Regular Legislative Session that would eliminate  
11 all remaining local ad valorem taxes and replace them with local  
12 value-added taxes, with such law to take effect on January 1, 2030.

13          ARTICLE 4. This Act takes effect on the 91st day after the  
14 end of the legislative session, except as otherwise provided above.