LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 7, 2003

TO: Honorable Ron Wilson, Chair, House Committee on Ways & Means

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB695** by Delisi (Relating to franchise tax deductions and exemptions for certain business activities involving desalination devices.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB695, Committee Report 1st House, Substituted: an impact of $0 through the biennium ending August 31, 2005.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	$0
2005	$0
2006	$0
2007	($140,000)
2008	($250,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *GENERAL REVENUE FUND* 1
2004	$0
2005	$0
2006	$0
2007	($140,000)
2008	($250,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code to authorize a franchise tax incentive for certain business activities involving desalination devices.

"Desalination device" would be defined as a system or series of mechanisms designed primarily to remove salt from seawater and produce desalted water.

Under SECTION 1 of this bill, a corporation engaged solely in the business of manufacturing, selling, or installing desalination devices would be exempt from the franchise tax. SECTION 1 would expire September 1, 2016.

SECTION 2 of the bill would allow a corporation to deduct from its apportioned taxable capital the amortized costs of a desalination device, or, from its apportioned taxable earned surplus, 10 percent of the amortized cost of a desalination device. To qualify for this deduction, the device would have to be acquired by a corporation for removing salt from seawater, be used in Texas, and reduce or eliminate the amount of fresh surface water or groundwater that the corporation used. The cost of the device would have to be amortized over a period of at least 60 months. SECTION 2 would expire on September 1, 2016.

The bill would take effect on January 1, 2006 and would apply to a tax report due on or after that date and to a deduction only for an expenditure made on or after that date.

Methodology

This fiscal note is based upon information provided by the Comptroller's Office.

The revenue impact of Texas' solar energy device exemption and deductions provided the basis in deriving the fiscal impact of this bill. The costs of that exemption and deductions were modified to reflect that desalination equipment is most commonly used by local jurisdictions, according to personnel from the Texas Water Development Board. Local jurisdictions are not entities subject to the franchise tax.

The bill would have no fiscal impact in the fiscal 2004-05 biennium due to the effective date.

The bill would have an insignificant fiscal impact in fiscal 2006 because the corporate accounting year on which the fiscal 2006 tax report is based would have concluded before the bill's effective date.

The bill would have a reduced revenue impact in fiscal 2007 because the accounting year for non-calendar year corporations would be partially completed before the effective date. The bill's fiscal implications would be fully implemented for fiscal 2008.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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