

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 1, 2003

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

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB976 by Grusendorf (Relating to exempting certain purchases of machinery and equipment used for research or development from sales and use taxes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB976, As Introduced: 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 | (\$9,808,000) |
| 2007 | (\$17,163,000) |
| 2008 | (\$28,834,000) |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND 1</i> | Probable Revenue Gain/(Loss) from <i>Cities</i> | Probable Revenue Gain/(Loss) from <i>Transit Authorities</i> | Probable Revenue Gain/(Loss) from <i>Counties/Special Districts</i> |
|-------------|---|---|--|---|
| 2004 | \$0 | \$0 | \$0 | \$0 |
| 2005 | \$0 | \$0 | \$0 | \$0 |
| 2006 | (\$9,808,000) | (\$1,805,000) | (\$650,000) | (\$225,000) |
| 2007 | (\$17,163,000) | (\$3,158,000) | (\$1,138,000) | (\$395,000) |
| 2008 | (\$28,834,000) | (\$5,306,000) | (\$1,912,000) | (\$663,000) |

Fiscal Analysis

The bill would amend Chapter 151 of the Tax Code to exempt machinery, equipment, and replacement parts that are used directly in the research or development of inventions, products, processes, or technology.

To qualify for exemption, the item would have to be used by a person primarily engaged either in the manufacturing, processing, or fabrication of tangible personal property for ultimate sale, or in the performance of scientific or technical services for such a person. The exemption would not apply to office equipment or supplies or to equipment or supplies used in sales, distribution, or transportation activities.

A person would be entitled to a credit or refund of a portion of taxes paid on the machinery or equipment. For purchases made in calendar 2006, a person would be entitled to a refund or credit of

20 percent of the taxes paid. The refund or credit would increase to 40 percent in 2007, 60 percent in 2008, and 80 percent in 2009. The machinery and equipment would become fully exempt January 1, 2010.

Credits would have to be claimed no later than the first anniversary of the date of purchase. Refund requests would have to be filed with the Comptroller before or during the calendar year following the year in which the tax was paid.

The bill would take effect January 1, 2006.

Methodology

Data on Texas expenditures for research and development were gathered from the National Science Foundation. Expenditures were adjusted to reflect the machinery and equipment that would be exempted, extrapolated through 2006, adjusted for appropriate refund or credit percentages, and multiplied by the state sales tax rate. The fiscal impact on units of local government were estimated proportionally.

Local Government Impact

Local units of government would have a corresponding fiscal impact from sales tax revenues, as indicated in the above table.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JK, JO, SD, WP, SM