

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**May 6, 2013**

**TO:** Honorable Harvey Hilderbran, Chair, House Committee on Ways & Means

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE:** **HB509** by Murphy (relating to the phaseout and repeal of the franchise tax; lowering the rates of the taxes.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB509, Committee Report 1st House, Substituted: a negative impact of (\$493,440,000) through the biennium ending August 31, 2015.

**Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$3,255,523,000) for the 2014-15 biennium. Any loss to the Property Tax Relief Fund must be made up with an equal amount of General Revenue to fund the Foundation School Program.**

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	\$0
2015	(\$493,440,000)
2016	(\$1,711,246,000)
2017	(\$1,674,461,000)
2018	(\$2,762,666,000)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Revenue (Loss) from <i>Property Tax Relief Fund</i> 304	Probable Revenue (Loss) from <i>General Revenue Fund</i> 1
2014	(\$1,270,606,000)	\$0
2015	(\$1,984,917,000)	(\$493,440,000)
2016	(\$2,021,535,000)	(\$1,711,246,000)
2017	(\$1,992,103,000)	(\$1,674,461,000)
2018	(\$1,977,558,000)	(\$2,762,666,000)

**Fiscal Analysis**

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by lowering the

tax rates applicable to the franchise tax base in three steps over period 2014 to 2016. The bill would repeal this chapter, and the franchise tax, effective January 1, 2017. For periods prior to the repeal of the franchise tax the bill would provide that a taxable entity with no more than \$1 million in total revenue would owe no tax. Under current law the amount of total revenue at which a taxable entity owes no tax will be \$600 thousand for reports due in 2014 and later.

For each year from 2014 to 2016 the bill would change three tax rates: the tax rate (currently 1.0 percent) applicable to taxable entities not primarily engaged in wholesale or retail trade; the tax rate (0.5 percent) applicable to taxable entities primarily engaged in wholesale or retail trade; and the tax rate (0.575 percent) applicable to taxable entities who elect the EZ calculation. The rate reduction for the current rate in 2014 would be 25 percent for each rate, in 2015 it would be 50 percent, and in 2016 it would be 75 percent.

A taxable entity that is subject to the tax on December 31, 2016, would be required to file a final report and pay a transitional tax equal to the tax the taxable entity would have paid in 2017 if the tax had not been repealed. The report and payment would be due on or before May 15, 2017.

The bill would provide that the repeal of Chapter 171 would not affect audits, deficiencies, redetermination and refunds of franchise tax until barred by limitations. The repeal would not affect the status of a taxable entity that has had its business privileges or certificate revoked or a suit filed against it.

Except as otherwise provided in the bill, the bill would take effect January 1, 2014.

### **Methodology**

The estimated fiscal impact is based on the Comptroller's 2014-2015 Biennial Revenue Estimate and the Comptroller's franchise tax files. The fiscal impact assumes the rates applicable for reports due on or after January 1, 2016 would apply to the transitional tax due May 15, 2017.

### **Technology**

The Comptroller of Public Accounts indicates there would be a one-time technology cost of \$292,000 in fiscal year 2014 for programming and system support costs.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** UP, KK, SD