LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 3, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB607** by Turner, Scott (Relating to the phaseout and repeal of the franchise tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB607, As Introduced: a negative impact of ($493,550,000) 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 ($3,255,519,000) 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	($100,000)
2015	($493,450,000)
2016	($1,711,346,000)
2017	($1,674,561,000)
2018	($2,762,766,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Property Tax Relief Fund* 304	Probable Revenue (Loss) from *General Revenue Fund* 1
2014	($1,270,602,000)	($100,000)
2015	($1,984,917,000)	($493,450,000)
2016	($2,021,535,000)	($1,711,346,000)
2017	($1,992,103,000)	($1,674,561,000)
2018	($1,977,558,000)	($2,762,766,000)

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 the period from 2014 to 2016.

The bill would repeal this chapter, and the franchise tax, effective January 1, 2017.

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 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report and pay a transitional tax equal to the tax the taxable entity would have paid in 2017 if the tax had not been repealed.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 set the amount of total revenue at which a taxable entity would owe no tax to $1 million. The bill would eliminate a $50 penalty on a taxable entity that fails to file a required report for a reporting period if the taxable entity owes no tax for the reporting period.

The bill would provide that the repeal of Chapter 171 would not affects audits, deficiencies, redeterminations of 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 by 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 in 2017 assumes the tax rates applicable for reports due on or after January 1, 2016, would apply to the transitional tax due May 15, 2017.

Technology

There would be a one-time technology cost of $292,000 in fiscal year 2014 for programming and project management.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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