LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 10, 2013

TO: Honorable Tommy Williams, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB953** by Button (Relating to a franchise tax credit for research and development activities performed in conjunction with institutions of higher education; authorizing a tax credit.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB953, As Engrossed: an impact of $0 through the biennium ending August 31, 2015.

However, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of ($10,300,000) 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	$0
2016	$0
2017	$0
2018	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Property Tax Relief Fund* 304
2014	$0
2015	($10,300,000)
2016	($12,000,000)
2017	($13,800,000)
2018	($15,600,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to add a new Subchapter N providing a tax credit for research and development activities performed in conjunction with institutions of higher education.

The bill would define "public or private institution of higher learning," "qualified research" and "qualified research expense." Eligibility for the credit would require a taxable entity to contract with one or more public or private institutions of higher education for the performance of qualified research. The credit would be calculated as 20 percent of the difference between (1) the total amount of qualified research expenses incurred in this state under contracts with institutions of higher education during the period on the which the franchise tax report is based, and (2) 50 percent of the average amount incurred on similar expenses during the three tax year preceding the period on which the report is based.

The total credit claimed for a report is limited to no more than 50 percent of the amount of tax due for the report before any other credits. The total amount of credit that could be claimed by all taxable entities for a fiscal year would be limited to $15 million. The Comptroller would be required to prescribe procedures by which to allocate credits on a pro rata basis. A taxable entity could carry forward credits that could not used because of the limitations for not more than 20 consecutive reports. A taxable entity could not assign the credit to another entity.

The Comptroller would be required to adopt rules to implement the credit provisions and to conduct a study and submit a report on the performance of the credit in meeting its intended purpose. The report would be required to assess whether the economic benefits of the credit exceed the amount of revenue lost and if legislative action is needed to increase the effectiveness of the credit.

The bill would take effect on January 1, 2014, and apply to a report due on or after that date.

Methodology

The estimated fiscal impact is based on the prior research and development tax credit that existed from 2001 to 2007. Adjustments were made for the growth of economy, the calculation method for the credit, and the provisions of the revised franchise tax. The estimate also is based on information regarding the amount of university-based research and development contracted for by private businesses. There would be no revenue loss in 2014 because contracted research and development activities beginning on or after the effective date of the bill would be reported on a return due in 2015 or later.

Technology

The Comptroller of Public Accounts indicates there would be a one-time technology cost of $776,000 in fiscal 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

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