LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

March 15, 2013

TO: Honorable John Davis, Chair, House Committee On Economic & Small Business Development

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 Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB953, As Introduced: 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 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 which the franchise tax is based, and (2) 50 percent of the average amount incurred on similar expenses incurred during the three tax years 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. A taxable entity that is eligible for credit in excess of the limitation may carry the unused credit forward for not more than 20 consecutive reports. The credit could not be separately conveyed, assigned, or transferred to another taxable entity. The Comptroller would be directed to adopt rules necessary to implement this subchapter.

The bill would take effect on January 1, 2014, and apply to tax reports 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.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, RB, SD, KK