

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 14, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1623 by Gonzalez, Naomi (Relating to a sales and use tax exemption for certain property and services used in research and development activities by a qualifying biotechnology start-up.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1623, As Introduced: a negative impact of (\$16,480,000) through the biennium ending August 31, 2015.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	(\$7,980,000)
2015	(\$8,500,000)
2016	(\$8,670,000)
2017	(\$8,840,000)
2018	(\$9,020,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from General Revenue Fund 1	Probable Revenue (Loss) from Cities	Probable Revenue (Loss) from Transit Authorities	Probable Revenue (Loss) from Counties and Special Districts
2014	(\$7,980,000)	(\$1,470,000)	(\$500,000)	(\$250,000)
2015	(\$8,500,000)	(\$1,570,000)	(\$530,000)	(\$270,000)
2016	(\$8,670,000)	(\$1,600,000)	(\$540,000)	(\$270,000)
2017	(\$8,840,000)	(\$1,630,000)	(\$560,000)	(\$280,000)
2018	(\$9,020,000)	(\$1,660,000)	(\$570,000)	(\$280,000)

Fiscal Analysis

The bill would amend Chapter 151, Tax Code, relating to a sales and use tax exemption for a qualifying biotechnology start-up.

A new Section 151.3183 would be added to provide that the sale, storage, use, or other consumption of tangible personal property directly used or consumed in qualified research or of qualified services is exempted from sales and use tax if the items are sold, leased, or rented to, or stored, used, or consumed by, a qualifying biotechnology start-up engaged in qualified research.

"Qualified research" and "qualified services" would have the meanings assigned by Section 41 of the Internal Revenue Code.

"Qualifying biotechnology start-up" would mean a start-up business located in this state on or after September 1, 2013 engaged primarily in the study of biological systems to develop products or processes for a specific use.

The bill would take effect October 1, 2013.

Methodology

Data from the National Science Foundation on funds spent for business research and development (R&D) by companies in Texas and on the distribution of such expenditures by type was used to estimate amounts of biotechnology R&D expenditures on items subject to sales and use tax. Because the bill lacks a definition of "start-up", it is assumed that a significant fraction of R&D activity of extant firms, if transferred into a newly formed subsidiary or other new legal entity, could claim the exemption. The estimate was extrapolated through 2018, and multiplied by the state sales tax rate to estimate the probable effect on state sales tax collections. Effects on units of local government were estimated proportionately.

Local Government Impact

There would be a corresponding loss of sales and use tax revenue to local taxing jurisdictions.

Source Agencies: 304 Comptroller of Public Accounts

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