

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 29, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2370 by Leach (Relating to an exemption from the franchise tax for a limited period following the relocation of a taxable entity to this state from another state.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2370, As Introduced: an impact of \$0 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 (\$6,465,000) 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	(\$6,465,000)
2016	(\$12,930,000)
2017	(\$19,395,000)
2018	(\$19,395,000)

Fiscal Analysis

The bill would amend Chapter 171 or the Tax Code, regarding the franchise tax, by providing

certain taxable entities an exemption from the franchise tax for a limited period of time. The exemption could only apply to entities not chartered or organized under Texas laws. The exemption would be available to taxable entities who met one of two additional conditions. The first condition would be that the taxable entity concurrently begin doing business in this state and relocate its main office or other principal place of business to this state. The second condition is that a taxable entity that has been doing business in this state and has its main office or principal place of business located in another state relocate its main office or principal place of business to this state. A taxable entity that met the first condition would have a beginning date for the franchise tax be the third anniversary of the date on which the taxable entity began doing business in this state. A taxable entity that met the second condition would be exempt from the franchise tax for a three-year period beginning on January 1 of the year following completion of the relocation of the main office or principal place of business to this state.

The Comptroller could require information reports from taxable entities receiving the exemption.

The bill would take effect on January 1, 2014, and would only apply to business done or potential tax liability incurred after the effective date of the bill.

Methodology

There would be no fiscal impact in 2014 because the required relocation of a taxable entity's main office or principal place of business after the effective date of the bill could only affect franchise tax due in 2015 or later. The estimated fiscal impact in other years for taxable entities not currently doing business in Texas is based on franchise tax return information for taxable entities not organized under Texas Laws and not domiciled in Texas and on relocation information provided by the Economic & Tourism Division of the Governor's Office. In addition, due to the potential ambiguity in the meaning of the terms "main office" and "principal place of business", the estimate assumes that each year a major current franchise tax payer would be incented to relocate such facilities to Texas.

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