

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 9, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2941 by Alvarado (Relating to a sales and use tax exemption for certain property and services used in research and development activities performed in conjunction with institutions of higher education.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2941, As Introduced: a negative impact of (\$66,300,000) 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	(\$32,100,000)
2015	(\$34,200,000)
2016	(\$34,900,000)
2017	(\$35,600,000)
2018	(\$36,300,000)

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	(\$32,100,000)	(\$5,900,000)	(\$2,000,000)	(\$1,000,000)
2015	(\$34,200,000)	(\$6,300,000)	(\$2,100,000)	(\$1,100,000)
2016	(\$34,900,000)	(\$6,400,000)	(\$2,200,000)	(\$1,100,000)
2017	(\$35,600,000)	(\$6,600,000)	(\$2,200,000)	(\$1,100,000)
2018	(\$36,300,000)	(\$6,700,000)	(\$2,300,000)	(\$1,100,000)

Fiscal Analysis

The bill would amend Chapter 151, Tax Code, to provide a sales and use tax exemption for certain property and services used in research and development.

A new Section 151.3182 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 property or services are sold, leased, or rented to, or stored, used, or consumed by, a person engaged in qualified research under contracts with one or more public or private institutions of higher education.

"Qualified research" and "qualified service" would have the meanings assigned by Section 41, Internal Revenue Code, and "public or private institution of higher education" would mean such entities as defined by Section 61.003, Education Code.

The bill would take effect October 1, 2013.

Methodology

The bill would not require that tangible personal property directly used or consumed in qualified research or qualified services to be exclusively used for those purposes, nor would the bill require that the exempt items of tangible personal property convey to an institution of higher education. A person engaged in qualified research could claim exemption if the person entered a sponsored research agreement for the performance of a fraction of a research project by an institution of higher education. Accordingly, a significant volume of purchases of currently taxable items for use in private sector research and development activities could qualify for exemption under the provisions of the bill.

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 business R&D expenditures on items subject to sales and use tax. It is assumed that fifteen percent of such expenditures could be claimed as tax exempt by businesses that enter sponsored research agreements with institutions of higher education. The result was extrapolated through 2018, and multiplied by the state sales tax rate to estimate the probable 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

LBB Staff: UP, RB, SD, KK