

BILL ANALYSIS

Senate Research Center
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S.B. 186
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Finance
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As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Texas is one of the best states in which to do business. The greatest impediment to Texas being the best state to do business is the franchise tax.

Created in 2006 as a way to finance public education and provide property tax relief, the franchise tax has come up short on promised revenues and only hurt our business community. The cost for compliance alone has harmed businesses forced to hire extra accounting personnel in order to make sure their requirements have been met.

Additionally, the franchise tax forces payments from non-profitable businesses depending on their revenue stream. Businesses paying the franchise tax are forced to choose between revenue deductions of 70 percent of their revenue, cost of goods sold, cost of compensation, or \$1 million. None of these represent real profit margins.

A complete repeal of the franchise tax has been suggested in the past but consistently ran into issues with budget writers regarding how to replace \$4 billion to \$5 billion in biennial revenue.

S.B. 186 addresses this issue by repealing the franchise tax in 2020 and in the meantime require the comptroller of public accounts of the State of Texas to research alternative revenue sources to replace state revenue lost by the repeal of the franchise tax.

As proposed, S.B. 186 amends current law relating to the franchise tax and alternative revenue sources and spending priorities for this state and repeals the franchise tax.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Authorizes this Act to be cited as the Revenue Reform Act of 2015.

SECTION 2. (a) Requires the comptroller of public accounts (comptroller) to conduct a comprehensive study that:

(1) analyzes and compares:

(A) the feasibility of implementing alternative methods to the franchise tax imposed under Chapter 171 (Franchise Tax), Tax Code, by which revenue may be generated to address the needs of this state; and

(B) the effectiveness of each of those methods in generating sufficient revenue to address those needs; and

(2) prioritizes the revenue needs of this state and identifies potential reductions in expenditures by this state.

(b) Requires the comptroller to consider the funding priorities and requirements established by the Texas Constitution in prioritizing the revenue needs of this state as required by Subsection (a)(2) of this section.

(c) Requires that the study conducted under Subsection (a) of this section include an analysis and comparison of the following revenue-generating methods:

(1) imposing a transaction tax in this state;

(2) imposing a value-added tax in this state;

(3) eliminating exemptions from the sales and use tax imposed under Chapter 151 (Limited Sales, Excise, and Use Tax), Tax Code;

(4) increasing the rate of the sales and use tax imposed under Chapter 151, Tax Code;

(5) imposing the sales and use tax under Chapter 151, Tax Code, according to rate brackets, the applications of which vary according to the sales price of a taxable item;

(6) imposing a business sales tax in this state in addition to the sales and use tax imposed under Chapter 151, Tax Code;

(7) any other method the comptroller considers potentially effective in addressing the revenue needs of this state; and

(8) imposing a business franchise tax in this state on the basis of net profit.

(d) Requires the comptroller to submit a report to the legislature regarding the results of the study conducted under this section not later than November 1, 2016. Requires that the report:

(1) identify one or more revenue-generating methods the comptroller determines would be most effective in meeting the revenue needs of this state;

(2) include a description of any legislation necessary to implement the methods identified under Subdivision (1) of this subsection; and

(3) propose specific reductions in expenditures by this state and any legislation necessary to implement those reductions.

SECTION 3. Repealer, effective January 1, 2020: Chapter 171 (Franchise Tax), Tax Code.

SECTION 4. Provides that the change in law made by Section 3 of this Act does not affect tax liability accruing before the effective date of that section. Makes application of this Act prospective.

SECTION 5. Effective date, except as otherwise provided by this Act: September 1, 2015.