

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 25, 2015

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB32** by Bonnen, Dennis (Relating to the computation and rates of the franchise tax; decreasing tax rates.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB32, As Passed 2nd House: a negative impact of (\$160,000) through the biennium ending August 31, 2017.

Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$2,559,867,000) for the 2016-17 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
2016	(\$160,000)
2017	\$0
2018	\$0
2019	\$0
2020	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from <i>Property Tax Relief Fund</i> 304	Probable (Cost) from <i>General Revenue Fund</i> 1
2016	(\$1,268,483,000)	(\$160,000)
2017	(\$1,291,384,000)	\$0
2018	(\$1,286,313,000)	\$0
2019	(\$1,310,256,000)	\$0
2020	(\$1,328,712,000)	\$0

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to permanently change tax rates applicable in determining franchise tax liability and the amount of total revenue

at or below which a taxable entity may elect to use the EZ computation to determine tax liability. The bill would set a tax rate of 0.75 percent for taxable entities not primarily engaged in retail or wholesale trade; the rate under current law is 1.0 percent. The bill would set a rate of 0.375 percent for taxable entities primarily engaged in retail or wholesale trade; the rate under current law is 0.5 percent. The bill would set a tax rate of 0.331 percent for taxable entities electing the EZ computation; the rate under current law is 0.575 percent. The bill would provide that a taxable entity could elect the EZ computation if its total revenue were no more than \$20 million; under current law the amount is no more than \$10 million.

The bill would direct the Comptroller to conduct a study to identify the effects of economic growth on future state revenues. The report would identify revenue growth allocation options to promote efficiency and sustainability in meeting revenue needs of this state, including revenues currently allocated to the Property Tax Relief Fund from franchise tax revenue, upon the repeal of the franchise tax. The report would be due by September 30, 2016.

The bill would take effect on January 1, 2016, and apply to tax reports due on or after that date.

Methodology

The estimated fiscal impact is based on the Comptroller's franchise return databases and the 2016-2017 *Biennial Revenue Estimate*.

The administrative cost estimate reflects the funds that would be necessary to hire contract staff to conduct a comprehensive study on the effects of economic growth on future state revenues and to identify revenue growth allocation options to promote efficiency and sustainability in meeting the revenue needs of this state.

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