

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 20, 2015

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2111 by Sheets (Relating to an exemption from the franchise tax and certain filing fees for certain businesses owned by veterans during an initial period of operation in the state.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2111, As Introduced: an impact of \$0 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 (\$700,000) 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	(\$1,000)
2017	(\$3,000)
2018	(\$7,000)
2019	(\$9,000)
2020	(\$12,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from <i>General Revenue Fund</i> 1	Probable Revenue (Loss) from <i>Property Tax Relief Fund</i> 304
2016	(\$1,000)	\$0
2017	(\$3,000)	(\$700,000)
2018	(\$7,000)	(\$1,330,000)
2019	(\$9,000)	(\$1,897,000)
2020	(\$12,000)	(\$2,407,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, and Subchapter A

of Chapter 12 of the Business Organizations Code, regarding the administrative powers of the Texas Secretary of State.

The amendments to Chapter 171 would apply to a taxable entity that qualifies as a new veteran-owned business (qualified business) as defined in the bill. The beginning date under the franchise tax for a qualified business would be the earlier of the fifth anniversary of the date on which the qualified business starts doing business in this state or the date the taxable entity ceases to qualify as a new veteran-owned business. For other taxable entities the beginning date is the date the entity was chartered or organized in this state or the date the entity started doing business in this state.

In order to be a qualified business the taxable entity must be a new business in which each owner is a natural person who served and was honorably discharged from a branch of the U.S. armed forces and provides verification to the Comptroller of the person's service and discharge. The bill would direct the Texas Veterans Commission to provide to a person who met the requirements a written verification of that status on a form required by the Comptroller. A new business would be defined as a taxable entity that is chartered or organized in this state and first begins doing business in this state on or after September 15, 2015.

The Comptroller could require a qualified business to file an information report stating its beginning date and any other information the Comptroller determines necessary. The Comptroller may not require the entity to report or compute its margin.

The amendment to the Business Organizations Code would provide a fee waiver for all business filing fees to a qualified business for the same period as the exemption from the franchise tax.

The bill would take effect September 1, 2015.

Methodology

The effect of this change is to exempt the qualified business from the franchise tax for the first five years it does business in this state if it remains a qualified business for that entire period. The bill would provide that the exemption from the franchise tax would not be lost if the entity were to have its federal tax exemption withdrawn.

For 2016 no significant fiscal impact is estimated to occur as a result of the changes to the franchise tax. A reduced fiscal impact is estimated for business filing fees. For periods after 2016 the estimated fiscal impact is based on the U.S. Census Bureau's Survey of Business Owners which includes information on veteran-owned businesses and on the Comptroller's franchise tax files for new tax filers. Adjustments were made to reflect the ownership requirement contained in the bill.

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