

LEGISLATIVE BUDGET BOARD  
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 11, 2015

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

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE:** SB7 by Nelson (Relating to the computation of and to decreasing the rates of the franchise tax.), **As Engrossed**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB7, As Engrossed: 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 (\$1,716,785,000) 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	(\$850,713,000)	(\$160,000)
2017	(\$866,072,000)	\$0
2018	(\$862,671,000)	\$0
2019	(\$878,729,000)	\$0
2020	(\$891,106,000)	\$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. The bill would set a tax rate of

0.85 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 0.425 percent for taxable entities primarily engaged in retail or wholesale trade; the rate under current law is 0.5 percent. Taxable entities electing the EZ calculation would determine tax liability by multiplying apportioned revenue by a tax rate of 0.331 percent; the rate under current law is 0.575 percent. The bill would increase the total revenue amount at which a taxable entity may elect the EZ calculation to not more than \$20 million from not 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*.

This 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