LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 19, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

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.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB7, Committee Report 1st House, Substituted: 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 ($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	$0
2017	$0
2018	$0
2019	$0
2020	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Property Tax Relief Fund* 304
2016	($850,713,000)
2017	($866,072,000)
2018	($862,671,000)
2019	($878,729,000)
2020	($891,106,000)

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 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*.

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